

OVERSEAS NEWS

The sound and the fury of blasted Basra

BY KATHY EVANS IN BASRA

THE FIRST show of the evening is just beginning at the Nights of Basra. The curtain opens to the sound of a scratchy Western tape and a troupe of Filipino dancers dressed in G-strings and chiffon begin their routine. The audience begins to improve as the whisky flows and the lead dancer slowly begins to gyrate.

would destabilise, if not topple the regime of President Saddam Hussein, and generate panic in the lower Gulf states. Basra, however, like the whole of the south of Iraq, is thick with defences; the region resembles a massive army camp.

Officially 300,000 people still live in the town and no refugees have fled. Yet empty houses can be seen everywhere and every day the shelling blasts another little slice of Basra.

commander of Iraq's third army corps, last week's relatively subdued shelling was the jolt before the storm. The army has been massing in the Northern and Central sectors, he says. Gen Rashid expects the Iranians to make more use of the "remnants" of their regular troops this time.

to use chemical weapons. He swears that they have not been used before. "Such barbarians can easily be annihilated by conventional weapons."

Lebanon conference considers concessions

By Anthony McDermott in Lausanne

A key session of the National Conciliation Conference started here yesterday afternoon, but adjourned almost immediately for private consultations on a working document making major concessions by both the Lebanese Moslem and Christian factions.

Egypt-Sudan defence pact invoked after 'Libyan attack'

BY CHARLES RICHARD IN CAIRO

EGYPT and Sudan have invoked their 1967 mutual defence pact following Friday's air attack on the Sudanese city of Omdurman, which both countries accuse Libya of carrying out.

rebels in southern Sudan. However, the external threat could be viewed as only one element in the worsening security situation in the south, where rebels are fighting what they perceive as domination of the African non-Moslem south by the Arab Moslem north.

S. Africans expect further pacts

BY BERNARD SIMON IN JOHANNESBURG

A WAVE of near euphoria has swept white South Africa over the past few days, following last Friday's signing of the historic non-aggression pact between Prime Minister P. W. Botha and President Samora Machel of Mozambique.

has noted that last Friday's extravagant bush ceremony was not a "meeting of friends" but the result of circumstances such as economic problems and the activities of anti-Government rebels backed by South Africa.

to drought-stricken areas further north. A number of businessmen said they are investigating opportunities in Mozambique in fishing, hotels and other sectors.

Turks fast to death

By Our Foreign Staff

AS many as 12 people have fasted to death in Turkish jails over the past few weeks in protest against prison torture and bad living conditions. Diplomatic sources and relatives said the biggest hunger strike so far was in the military prison in the south-eastern city of Diyarbakir where most inmates are Kurds accused of separatist militancy.

firm reports said a further four had died. Another report said the fast was called off earlier this month. Relatives said that at Mamak military jail outside Ankara a hunger striker died this week and several others were in a critical state in hospital.

Fighting flares again in Beirut

BY QUENTIN PEEB, AFRICA EDITOR

BEIRUT - Rival Christian and Moslem militias traded rockets, mortars and machine gun fire in and around Beirut yesterday as reports surfaced that France had tentatively agreed to help separate the warring factions.

U.S. withholds Nigeria credit

BY QUENTIN PEEB, AFRICA EDITOR

THE U.S. Government is withholding some \$70m (£50m) in credit promised to Nigeria for wheat purchases, pending an agreement with the International Monetary Fund on an economic stabilisation programme.

Strike hits 10 ports in India

By K. K. Sharma in New Delhi

THE INDIAN Government took an anxious assessment yesterday of inventories of imported goods on which the country depends as the near-total strike by more than 300,000 dockworkers paralysed the 10 major ports for the fourth successive day.



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OVERSEAS NEWS

TODAY'S EEC SUMMIT

Unfair trade defences to be stiffened

THE EEC is stiffening its defences against the unfair trading practices of its competitors. A last-minute political agreement before the summit has resolved nearly two years of argument on which institution of the EEC should decide on the defences, when it is necessary. The new common Commercial Policy Instrument, as it is called, is designed to provide a quicker response in trading disputes where EEC countries or companies within them feel they are not able to compete equally. The model most frequently cited is the U.S. Trade Act which provides a means for U.S. companies to petition for Administration action against other countries when they are thought to be competing unfairly. The idea of an EEC instrument was advanced by France in 1982, but negotiations quickly bogged down on whether the European Commission or the Council of Ministers should have the right to initiate action. The conclusion of the main part of the negotiations, first reached by officials of the Ten and now to be defined in a legal text, sprang from a British compromise suggestion and falls into two parts. Where the EEC has to respond to the legal trading actions of others, such as seeking concessions or the imposition of quantitative restrictions, the Council takes the decision to act with qualified majority. With the illegal trading actions of others, such as export subsidies or the freezing of EEC companies out of public sector markets, the procedure is lengthier.

France outlines basis for global agreement

BY JOHN WYLES IN LUXEMBOURG A DOCUMENT setting out the basis for a global agreement at today's EEC summit was sent to national capitals late on Friday by France, acting in its capacity as President of the EEC's Council of Ministers. The introduction sets out the goals of the Community. These are a modernised agricultural policy, increased convergence between member states, enlargement of EEC on satisfactory terms and priority moves to strengthen industrial competitiveness. The proposal seeks agreement by the end of June on new forms of EEC operation in telecommunications and biotechnologies. It calls for increased spending on research and development. The new policies section aims at the achievement of a "true" economic union, through greater economic convergence, industrial co-operation and strengthening of the Common Market. Specifically, it seeks agreement harmonising production norms, the progressive liberalisation of services (including insurance and transport) and a common transport policy. On the financial front it seeks further work on adapting the European Monetary System (EMS), greater use of EEC borrowing to finance investment and progress towards "better" financial integration. After listing outstanding farm issues the proposals call for a more efficient use of the EEC's structural funds so as to avoid duplication of spending and their combination in the form of integrated Mediterranean programmes. Spending on all structural funds should grow "substantially" in real terms. September 30 is set as the target date for completing the accession negotiations with Spain and Portugal. On budgetary discipline the proposal says the Council of Ministers should set each year, as "a point of reference," a figure for the growth of EEC spending. On Budgetary imbalances, Jargon for the British budget problem it says that entitlement to a reduction in budget payments should be determined by relative prosperity as should the size of any reduction. But no member State should be exempted from paying for increased EEC spending. Reductions would be achieved by lowering a member State's transfers of value added tax and customs duties and levies to Brussels.

EEC farm deal: cause for muted celebration

BY OUR BRUSSELS CORRESPONDENT THE WEEK which ended in heavy-eyed satisfaction at midday on Saturday was a highly unusual one for EEC Agriculture Ministers. Accustomed during the past 15 years to distributing largesse to the Community's 9m farmers and to buying each other off with special little programmes of benefit to one country or another, the Ministers this time reached provisional agreement on a package imposing some painful sacrifices on their agricultural industries. It might be said that the Community's parlous budgetary situation, and the need to make an important contribution to boosting the prospects for agreement at today's summit in Brussels, left them with little alternative. M Michel Rocard, France's Minister of Agriculture, acknowledged as much on Saturday. As President of the Council of Ministers he had kept his colleagues up all night and pushed them towards agreement because otherwise the Community might have "broken down". It was wise of him not to apply a more extravagant raiting to the achievement. By slipping curbs on milk production, cutting prices on a number of products, and limiting price guarantees on others, the Ministers have changed the shape of the Common Agricultural Policy (CAP) and created the basis for making it more economical in the future. But they have failed to respond to the imperatives imposed by the 16.5bn European currency units (Ecu) farm budget. As a result, the Ten may have to find another 2.5bn for agriculture before the end of the year, despite the fact that overall EEC spending is flat up against the maximum legal limit on revenues that member states can supply. The financial impact of last week's draft agreements is unclear. Overall, the European Commission's price and CAP reform proposals were meant to save 875m Ecu this year. This saving has been turned into an additional cost of 610m Ecu this year and 825m Ecu next year. The extra costs derive in some ways from the Ministers' inability to agree on a revenue-raising oils and fats tax (worth 600m Ecu in a full year) partly because the milk quota arrangements are less economic than those proposed by the Commission, and partly because the expected solution to phasing out Monetary Compensatory Amounts (border taxes and subsidies) will cost at least 400m Ecu when the Commission was looking for savings of around 170m Ecu. In their final session on Friday and Saturday the Ministers agreed to price freezes on durum wheat, rye and sugar (instead of 1 per cent cuts on rye and sugar as proposed by M Rocard) and 1 per cent reductions in a range of other products including olive oil, table wines, beef and pig meat. In addition, the Ministers endorsed the principle that guarantee thresholds will be applied more generally where ever production moves into surplus or where output is rising to such an extent that it is likely to lead to a heavy increase in expenditure. As well as having to deal with Ireland's demand for exemption from the milk quota and some aspects of the MCA solution, the summit may also have to try to remove one of the UK's reserves on the farm package concerning the removal of the variable beef premium. This bridges the gap between market prices in the UK and production costs which are higher. Mr Michael Jopling, the UK's farm minister, also withheld approval for the package on the grounds of its cost. Italy (olive oil) and Greece also reserved their positions on some details. The Ministers will meet again next Monday and Tuesday in the hope that the summit will have made the necessary breakthroughs for them to tie up outstanding details on the most unusual package in the history of the CAP.

French Catholics plan fresh campaign on private schools

BY DAVID HOUSEGO IN PARIS CATHOLIC parents and teachers' associations in France were preparing at the weekend for a fresh campaign against Government's decisions on the future of private schools. M Alain Savary, the Minister of Education, announced the decisions late on Friday night. They are to be published as a draft law to be passed by the Government has backed down, to the indignation of the state school lobby, over many of the points in dispute, but it has held its ground over proposals that would partially assimilate private school teachers into the state system. The Catholics maintain that ending private school teachers with the same status of public employees as those in the state sector would ultimately rob the private schools of their specific character. The Cabinet decided on this compromise at its meeting last Wednesday in the knowledge that the Catholics might unleash a further campaign. But the Cabinet equally felt that it could afford to stand firm on one point having angered its own followers by backing down on so many others. 7-00 weeks ago some 500,000 people took part in a mass rally in defence of the private schools at Versailles. The Catholic organisations gave a reserved welcome to M Savary's concessions and were critical of his decisions over the future status of private school teachers. But while they talked of a fresh campaign, they also left the door open to a further compromise.

Norwegian leader 'will discuss Statoil status'

BY FAY GJESTER IN OSLO MR KARE Willoch, Norway's Prime Minister, has said he would be glad to discuss with the main opposition Labour Party his Government's plans for a change in the status of Statoil, the state oil company. He agreed it would be valuable if the discussions could produce a compromise which both sides were able to accept. The Government is committed to reducing the company's present powerful role on Norway's continental shelf. The Prime Minister was replying to a letter from Labour's national executive offering to examine ways in which parts of Statoil's income might in future be channelled directly to the state. The day the letter was published Labour leader Ms Gro Harlem Brundtland and former Industry Minister Mr Finn Kristensen told a press conference a compromise between Government and opposition over Statoil was in the country's interest. Without it, they pointed out, Norway could slip into a situation similar to that in Britain, with the state oil company's status coming up for revision every time there was a change in the Storting majority. Ms Brundtland and Mr Kristensen said that while Labour was prepared to consider some adjustments in the share of Statoil's earnings that the company was allowed to retain, it could not countenance any change in Statoil's special position as an instrument for implementing national oil policies. Mr Kristensen said: "We shall never agree to proposals that would reduce Statoil to an 'ordinary' oil company on a level with Norsk Hydro and Saga. Statoil is, in our opinion, the most important oil policy tool we have." Ms Brundtland said if the Prime Minister accepted Labour's invitation to talk, she hoped the discussions would take place before the Government tabled its planned white paper about Statoil, based on the recommendations of a royal commission which reported early last year. The paper is due before the Easter recess.

Hong Kong meetings accelerate

BY Robert Cottrell in Hong Kong BRITAIN and China have accelerated the pace of their negotiations on the future of Hong Kong. Following the tenth round of talks on Friday and Saturday, an eleventh round is to be held on March 26-27. Previous rounds have been spaced at three-to-four-week intervals. The increased tempo appears to reflect China's desire to finalise an agreement by September at the latest, while Britain is sensitive to pressure from both Hong Kong and the British parliament to make some public statement of progress in the so-far confidential talks. Such a statement may be forthcoming when Sir Geoffrey Howe, Britain's Foreign Secretary, visits Hong Kong soon - possibly next month. The weekend communique described the tenth round of talks as "useful and constructive," the stock formula used to describe almost all the preceding rounds.

Schools take first bite at computer studies

BY JOHN DAVIES IN FRANKFURT ALL SCHOOLCHILDREN in the West German state of Baden-Württemberg are to be taught about computers - just as soon as enough teachers can unravel the mysteries themselves. The state has decided to introduce computer studies as an integral part of mathematics and other technical subjects such as physics. "We want to de-mystify the computer," said Herr Gerhard Mayer-Vorfelder, Education Minister. Baden-Württemberg prides itself on being in the forefront of new technology, a favourite theme of Herr Lothar Späth, the Premier, who faces a state election on March 25. His state is always jostling with its burly neighbour, Bavaria, for the honours of attracting research and production in high-technology fields. It claims to be the first West German state to bring in computer studies for all children, although, as in other states, some children already have access to computers, especially in the more elite Gymnasium schools. The state has resisted the temptation to introduce children too early to computers for fear it weakens the traditional stress on reading, writing and arithmetic. It has also rejected the idea of creating a new subject of "informatics." But all children in class 9 - aged about 15 - will learn about computers progressively from next year onwards. One hitch is that of the state's 100,000 teachers, only about 4,000, mostly mathematicians, know enough about computers to teach pupils. Over the next four years, 18,000 teachers face advanced training before being let loose on classes. More computers will have to be bought for schools and the state envisages they will cost between DM 15m (\$3.4m) and DM 20m, a burden that will fall largely to local community authorities. Herr Mayer-Vorfelder cautioned against any "computer euphoria"

Default problem for Costa Rica

BY Peter Montagnon, Euromarkets Correspondent COSTA RICA's bank creditors have been told that the country's failure to raise emergency short-term loans means an "occasional situation of default" could now occur on its \$4bn foreign debt because of a squeeze on its foreign exchange cash-flow. The warning came in a letter to bank creditors from Bank of America, which chairs the committee of leading creditors handling Costa Rica's debt rescheduling. Earlier this month, the committee reported that Costa Rica was in a "serious financial situation" because of delay in reaching agreement with the International Monetary Fund had resulted in a shortfall in foreign exchange receipts. Now the committee has been told by Dr Carlos Manuel Castillo, president of the Central Bank, that Costa Rica had failed to obtain credit from the U.S. Government and from the Bank for International Settlements from which it had planned to seek a \$50m loan. Commercial banks are also refusing emergency finance, although a team of economists from the committee is expected to visit San Jose soon to examine needs for extra funds after the IMF agreement is reached. This is expected to be in mid-April, allowing disbursement of U.S. Government aid to resume before the beginning of May.

Basque trawler crews defiant

BY Tom Burns in Madrid THE TWO Basque trawlers which were at the centre of a serious diplomatic incident after being detained by France for fishing without permits in the Bay of Biscay returned to their home port of Ondarroa at the weekend with their crews unharmed and determined to continue fishing in the restricted French zone. The Valle de Atxondo, which was seized by a French patrol boat 140 miles off the coast of Brest on February 7, docked on Saturday together with its sister ship Burgomendi (immunity rescinded). The skippers of both trawlers were last week fined \$15,000 each by a French court on charges of fishing illegally. Sr Jose Maria Arsaola, captain of Burgomendi, said he had every intention of returning to the restricted 200-mile French zone of the European Community waters.

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WORLD TRADE NEWS

**Alitalia plans flights to U.S. West Coast**

By Alan Friedman in Abano Terme  
ALITALIA, the Italian state airline, plans a major expansion of its North Atlantic services, including the introduction of four weekly flights from Italy to Los Angeles.  
These will be the first direct flights from the Mediterranean to America's Pacific coast, the airline said at the weekend.  
The expansion of North Atlantic routes, which are expected to account for 14,000m (£170m) of the airline's 1984 turnover, itself predicted to rise by 18 per cent to £3,600m, will include the restoration after two years of flights to Boston and additional services to New York. Capacity will be increased by 26 per cent on these routes.  
The new flights are expected to result in an initial decline in the airline's load factor on north Atlantic routes—the percentage of seats filled per aircraft from 71.3 per cent to 65.4 per cent in 1984.  
Alitalia said that its international traffic last year, in line with the rest of the industry, registered zero growth. But international traffic has been up by eight per cent since the beginning of this year.  
The airline said its South American business had been hit by the economic crises of various debtor countries. Funds have been blocked and delayed in several countries. Traffic from Venezuela was "in sharp decline".  
Alitalia is considering ordering up to 30 new 150-seater aircraft for delivery in the 1990s. The Airbus A-320 is strongly in the running, but no decision has yet been taken, a senior executive said. The airline is awaiting the outcome of talks between Boeing and Aeritalia, the state aircraft company, over possible collaboration in a new aircraft in which Japanese companies would also be involved.

**David Marsh travels the French route to a multi-billion dollar deal. On the inside track to Florida**

"IT WAS FANTASTIC. A great experience," beamed Mr Bob Graham, the Governor of Florida, settling back into his plush window seat after taking a VIP ride in the drivers' cabin of France's high speed train.  
Zooming through the countryside between Paris and Lyon, he was talking during a 180 mph trip, plus slap-up technical delights of the French TGV (Train de Grande Vitesse) system. The trip is so smooth that the driver can nonchalantly combine manning the controls and sipping a Kronenbourg beer without spilling a drop.  
Florida is expected to decide over the next 12 months whether to choose the TGV or the slightly slower 130 mph Japanese "bullet" train in a multi-billion dollar contract for a planned high-speed rail link between Miami, Orlando and Tampa. SNCF, the French railways, and the country's main railway equipment manufacturers were trying to convince the officials from the U.S. state that the TGV would do the job best.  
Mr Graham, who rode the rival Japanese "bullet" in September, did not want to pre-

judge the outcome of the state's selection process. But provided the Florida project is given the go-ahead this summer, France—which has launched an assault on the U.S. high speed train market three years after the Japanese started marketing their system—seems to have a major chance of clinching the deal.  
State officials said they were "not comfortable" with aspects of the rival's financing plan. The Japanese have offered Florida a network with a more expensive concrete-borne track costing an overall \$3.5bn, compared with the TGV offer worth \$2bn. "The ultimate question is one of economic viability," said Mr Graham.  
The Floridians are also impressed that the French offer would make no call on U.S. subsidies and would be partly financed by revenue from commercial shopping centres built around stations.  
SNCF says the Paris-Lyon link, which comes into full service this year will make around FFr 700m (£58m) net profit this year after operating costs, depreciation and financial charges, on receipts of FFr 4bn.  
The prospect of a good financial return has even tempted the Swiss-based Compagnie Financiere of the Rothschild family to approach the Floridians with a funding offer. On the important question of "Americanising" the TGV offer, Mr Graham said the French had been more extensive in drawing in other participants to the project.  
The French rail equipment group, headed by Alstom Atlantique, has included the U.S. Westinghouse electrical group in its plans for the Florida link. This follows the U.S. company's involvement in the French rail metro contracts in San Francisco and New York in 1982.  
Pan American Airways has been recruited to advise on traffic calculations, while Merrill Lynch the New York securities house—together with the French investment bank Paribas and its New York affiliate Becker—has been drawn into the financing package.  
To head the TGV marketing efforts in the U.S., Alstom last year plucked Mr Robert Blanchette out of the Washington government circuit. Mr Blanchette, a U.S. lawyer formerly with the Federal Rail Administration is gravel-voiced, bilingual and even looks like a Frenchman.

**Sun shines on French negotiations with Fuji**

By Paul Betts in Paris  
Fuji Electric Company of Japan has signed a solar technology agreement with the joint solar energy subsidiary of two leading State-controlled French companies, Compagnie Generale d'Electricite (CGE) and Elf Aquitaine.  
The accord between Fuji and Photowatt, the CGE and Elf solar subsidiary, involves a research, development, manufacturing and sales agreement in photovoltaic cell technology and in the development of ribbon crystal and amorphous technologies.  
Photovoltaic technology involves the conversion of sunshine or sunlight or both into electricity. The French Government and the main French industrial groups in the energy sector have recently decided to concentrate their solar energy efforts on photo-electric or photovoltaic technology.  
The latest agreement thus appears to be likely to strengthen their position in the sector in which Japan and the U.S. are considered to be the most advanced.  
France currently claims 18 per cent of the world market for photovoltaic arrays (or batteries) with sales last year of FFr 100m (£5.6m). Elf, the French State-owned oil group, and CGE, the nationalised diversified conglomerate, pooled their photovoltaic interests last November.  
The principal French companies involved in the sector are the nationalised Rhone-Poulenc chemicals group, involved in the development of silicon for photovoltaic cells, CGE and Elf in the Photowatt subsidiary; the Total oil group in partnership with the nationalised St Gobain conglomerate; and the Leroy-Somer electrical group.  
The French five-year photovoltaic programme envisages investments in this sector of FFr 450m being supplied by the Government.

**Japanese typewriter company considers European production**

BY JOHN DAVIES IN FRANKFURT  
BROTHER INDUSTRIES, the Japanese office equipment concern, is considering setting up a plant in Europe to assemble electronic typewriters.  
Harald Rudolf, head of Brother's West German operation, says the plant might be set up in England, Scotland or Ireland, with West Germany rather less likely to be chosen.  
He said that the Japanese parent company was investigating a possible European production operation to overcome delivery delays resulting from increased demand. Herr Rudolf criticised the complaint lodged with the European Commission in Brussels by local typewriter manufacturers, who allege Japanese electronic typewriters are being imported at dumping prices.  
He denied that his own company was involved in dumping, adding: "If the European Commission holds a dumping inquiry, we have nothing to fear."  
Brother has about 10 per cent of the West German market for mechanical typewriters, and about 25 per cent of the local market for compact electronic typewriters.  
Herr Rudolf said all Japanese companies had only a small market share in office electronic typewriters as opposed to the compact variety—and in the more traditional electro-mechanical typewriters.  
Brother, which has been steadily building up sales in West Germany for more than 20 years, expects a sharp increase of 50 per cent in its sales revenue to between DM 90m and DM 100m (£22-25m) this financial year. Typewriter sales are expected to account for about 75 per cent of revenue.  
Brother is moving increasingly into computer peripherals and plans to introduce four new models of "compact" electronic devices at the Hannover Fair next month. It forecasts increased demand for such products.  
**West German video parts plant**  
Robert Bosch, the West German electronics giant, is establishing a joint venture in Japan in a new venture to produce components for video cassette recorders (VCRs) and colour TV sets. The two companies are already partners in assembling VCRs at the VHS format. Matsushita now manufactures producing VCRs and TV sets. Bosch is willing to lease premises, but has not yet decided whether to take a stake in the venture.  
Bosch has a 15 per cent stake in the VCR assembly operation, and Matsushita holds the remaining 85 per cent.  
Bosch will be producing 100,000 units of VCRs and TV sets in 1984, giving it close to 15 per cent of the world market.

**SHIPPING REPORT Middle East tanker market declines again**

FINANCIAL TIMES REPORTER  
THE STRENGTH of the Middle East tanker market, buoyed two weeks ago by the Iran-Iraq war—has proven short-lived. Charterers were able to reduce rates considerably last week.  
Among the recent deals was a 245,000 ton cargo to Japan at Worldscale 27½ and another of similar size to the U.S. Gulf coast at Worldscale 24½. Medium sized tankers fared better for Middle East business; in one case Worldscale 57½ was paid for a loading of 144,000 tons at the end of March from Kharg Island to Italy.  
The West Africa tanker market was well up, with more than a dozen vessels finding employment during the week, compared with only four the previous week. Most were of the 130,000 ton size going to the U.S. Gulf at around Worldscale 37½.  
The Mediterranean market was a little brighter, with an acceleration of inquiries. A 95,000 ton cargo from Turkey to the French Mediterranean was completed at Worldscale 64.  
Lloyds has reported another increase in total idle tanker tonnage. At March 1, it consisted of 1,681 vessels of 82.7m tonnes compared with 1,658 vessels of 79.64m tonnes on February 1. The worsening was mainly due to an increase in large tankers waiting for over two months outside the Gulf.

**Electric car further down the road**

By Our Frankfurt Correspondent  
The West German subsidiary of Brown Boveri, the Swiss-based electrical engineers, has taken a step forward in its electric car project by signing a cooperation deal with a Canadian company.  
The pact with Magna International of Toronto envisages setting up a joint company to supply parts for an electric car for North American markets. Brown Boveri said that the move was tentative and that no time scale had been set for founding a company.  
It said that Magna International, which supplies parts to North American car manufacturers from plants in the U.S. and Canada, would have a majority stake in any joint company.  
Brown Boveri has been carrying out development work on an electric car for ten years and foresees further lengthy research and tests. But Dr Herbert Cassert, chief executive of the German subsidiary recently expressed optimism about the project, declaring that series production of the electrical parts for such a car might be possible in the second half of the 1990s.  
Brown Boveri has been aiming to develop electrical parts for a four-seater car with a range of 185 miles.

WORLD ECONOMIC INDICATORS UNEMPLOYMENT

	Feb '84	Jan '84	Dec '83	Nov '83	Oct '83
UK	3.1%	3.2%	3.3%	3.4%	3.5%
U.S.	7.5%	7.6%	7.7%	7.8%	7.9%
Japan	2.5%	2.6%	2.7%	2.8%	2.9%
W. Germany	3.4%	3.5%	3.6%	3.7%	3.8%
France	7.2%	7.3%	7.4%	7.5%	7.6%
Netherlands	6.5%	6.6%	6.7%	6.8%	6.9%
Italy	10.2%	10.3%	10.4%	10.5%	10.6%
Belgium	11.5%	11.6%	11.7%	11.8%	11.9%

Sources: (Japan) ILO; (U.S.) Bureau of Economic Analysis

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ECONOMIC INDICATORS  
UNEMPLOYMENT

Jan '84	Jan '84	Dec '83
1,566	3,200	10
2,261	18.4	10
2,261	9,026	10
7.8	8.0	10
Jan '84	Dec '83	Nov '83
1,435	1,430	12
2.5	2.6	2
2,029	2,549	20
9.4	6.7	10
2,752	2,227	22
9.8	9.8	9
1,207	855.6	10
15.4	15.3	10
2,022.8	2,820.1	10
11.5	11.5	10
82.7	66.5	10
14.7	14.8	10

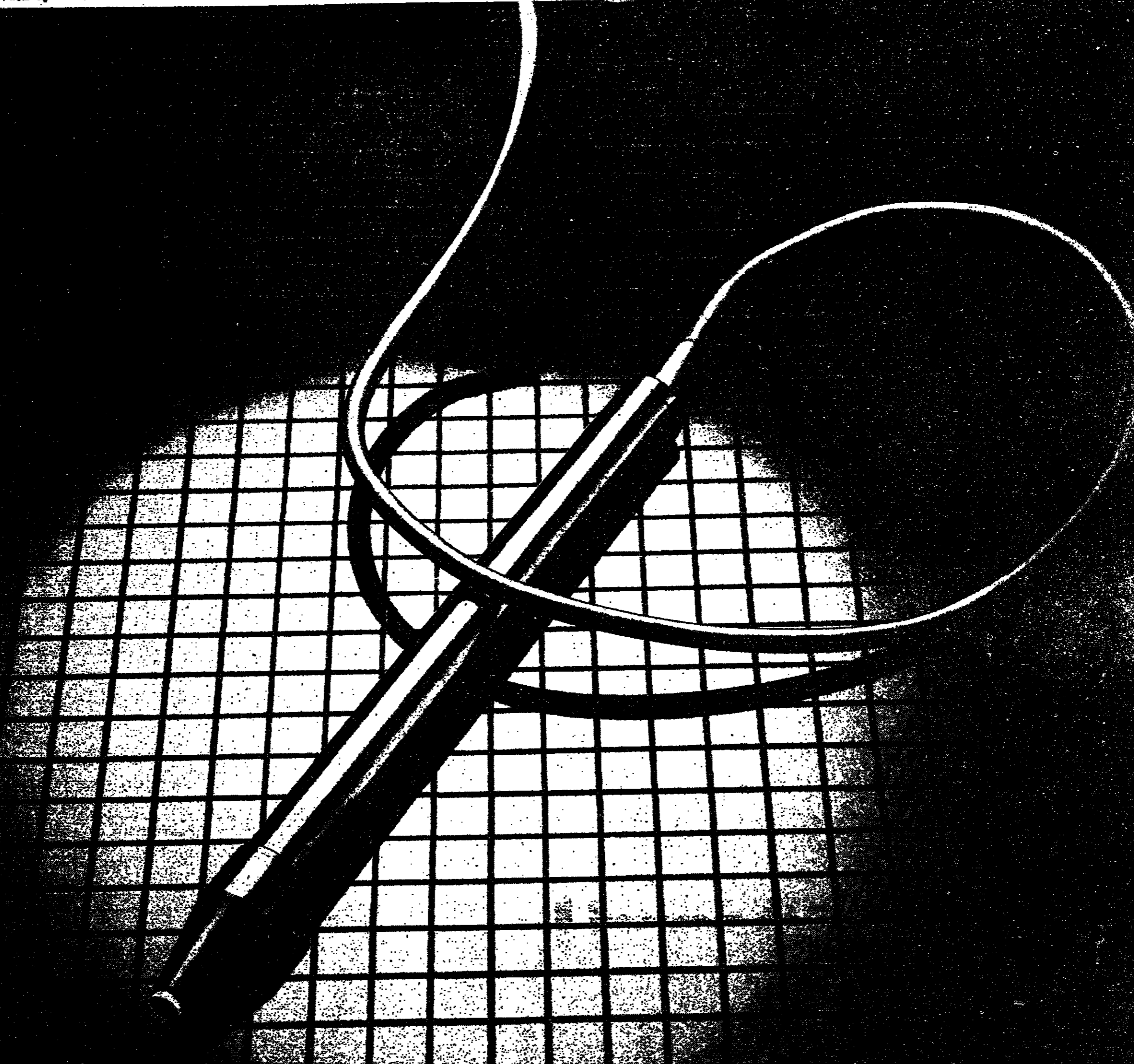
Base Rate

CREDIT AND CREDIT  
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## FT COMMERCIAL LAW REPORTS

### U.S. metal fraud case can proceed

ALCI METALS (LONDON) LTD METALL UND ROHSTOFF AG AND ANOTHER

Court of Appeal (Lord Justice Ackner, Lord Justice Purchas and Lord Justice Parker): March 13 1984

WHERE A change of circumstances follows the grant of an injunction to restrain concurrent foreign proceedings and removes one of the major disadvantages of those proceedings, an appellate court may reassess the balance of advantage and disadvantage as between the litigants, and should set aside the injunction if its retention would lead to a preponderance of disadvantage to one party over advantage to the other.

The Court of Appeal so held when allowing an appeal by ALCI Metals (London) Ltd from Mr Justice Staughton's order restraining it from proceeding in New York against Metall und Rohstoff AG (M & R) and Associated Metals and Minerals Corp (AMMC).

LORD JUSTICE ACKNER said that M & R, a Swiss corporation, traded in aluminium metal, and ALCI, an English company, was a rising member of the London metal exchange.

AMMC, a New York company, was the parent company of M & R.

It was alleged that a massive fraud was conceived and directed in New York by officers of AMMC, which resulted in millions of dollars of losses to ALCI.

An English action was begun by M & R, arising from the buying and selling of aluminium by M & R through ALCI.

ACLI served a defence and a counterclaim. On October 11 it commenced an action against AMMC in New York. The claim covered substantially the same matters as were alleged in its counterclaim in the English action.

On November 1, AMMC served notice of motion in the New York action for an order that the complaint be dismissed on the ground of *forum non conveniens*.

On November 3 M & R issued a summons in the English Commercial Court for an injunction restraining ALCI from prosecuting the New York action. It also asked for an order that AMMC be added as a defendant to the counterclaim.

On November 28, AMMC issued a writ against ALCI claiming a declaration of non-liability to ALCI and a summons for an injunction against ALCI.

Thus, on November 30, when Mr Justice Staughton began the hearing of the summons, there was a multiplicity of proceedings. The nature of the New York dispute was virtually a mirror image of the dispute in the counterclaim in the English action.

ACLI could have joined AMMC as an additional defendant to its counterclaim. It did not choose to do so because it considered that in respect of a fraud allegedly conceived and directed in New York by a New York corporation, it was more in its interests to sue in New York.

Mr Justice Staughton granted an injunction sought by M & R to restrain ALCI from continuing the New York proceedings.

It was against that decision that ALCI now appealed.

Mr Justice Staughton properly directed himself as to the law in the following respects: that to justify the grant of the injunction it had to be established that ALCI was amenable to the jurisdiction of the English court and that justice could be done there at substantially less inconvenience; that the injunction would not deprive ALCI of a legitimate personal or juridical advantage which would be available to it in the American proceedings; that the jurisdiction to restrain proceedings abroad was to be exercised with extreme caution; and that the principles governing the exercise of the court's discretion were the same whether the remedy sought was a stay of English proceedings or a restraint on foreign proceedings.

The judge said that English courts were the natural forum. He was satisfied that justice could be done in the UK at substantially less inconvenience and expense than in the U.S.

He concluded that the causes of action available to ALCI in New York were not more extensive than in London; that there was no difference in the standard of proof between England and New York; and that punitive damages were available in England, as they were in New York. Therefore, he decided, there were no substantive advantages in hearing the case in New York.

His conclusion that ALCI had an undoubted right to claim punitive damages in the English proceedings was criticised by ALCI.

There was no decision directly in point, but it was clear from available obiter that ALCI's entitlement to claim punitive damages if it succeeded in its claim was, at best, arguable.

If the judge did take that factor into account it would not have merited much weight. Viewed in isolation it would not justify the court in interfering with his decision.

The judge accepted that particularly in the case of covert fraud the U.S. procedure of pre-trial discovery and depositions could be of great value to a plaintiff, and that

there were procedural advantages for ALCI in the New York suit.

ACLI complained that he did not give sufficient weight to that advantage.

The assessment of weight to be given to a factor and the balancing of factors on one side or the other, were matters for the discretion of the judge, unless it were shown that no reasonable judge would have reached such a conclusion.

Mr Justice Staughton was not obliged to find that the procedural advantage on its own was conclusive. He concluded that the multiplicity of suits, which was created by ALCI by choosing not to join AMMC as defendant to its counterclaim, was a significant disadvantage to M & R. In doing so, he took the right matters into account, and not the wrong ones.

In America there was a constitutional right to claim trial by jury, whereas in the English courts it was a matter for the exercise of the court's discretion. Since the case was likely to require prolonged examination of documents and accounts, the judge rightly concluded that it was most unlikely that jury trial would be ordered in the UK, that trial would take much longer in America with a jury, and that the dispute would be much better tried by a judge alone.

During the course of the present appeal, ALCI submitted that it was prepared to undertake to exercise its right to claim trial by a judge alone in its American proceedings.

Mr Littman, for M & R, submitted that change of heart since ALCI had had the opportunity of making the concession when the disadvantage of jury trial was first raised, and had refrained from doing so.

The court could not disregard it. If there had been hesitation between the hearing of the summons and the appeal which made trial by judge alone obligatory in New York, it would have had to have regard to the change of circumstances.

If a party, after reflection, decided not to exercise its right

to claim jury trial, then that must also be a change of circumstances following the judge's order.

The judge had also concluded that to super-add to the English procedure the New York procedure for discovery was a disadvantage of substance. He reached that decision because in his view it was nearly certain that there would be no trial in New York in that the English action would come on first and determine the issues between the parties.

The evidence and inquiries made of the commercial clerk showed that the probability was that both actions would come on at about the same time. Thus the point of timing must be disregarded.

In view of the error made by the judge in treating the question of timing as a powerful factor, and the much less important error in regard to his acceptance of a "clear right to claim punitive damages in England," and in view of the change of circumstances in relation to jury trial, the exercise of his discretion should be set aside.

There should be allowed and the injunction quashed, subject to ALCI's undertaking to claim trial by judge alone in the New York proceedings, in lieu of trial by judge and jury, and as offered in the course of the hearing of the appeal, to delete from its defence and counterclaim all references to AMMC, thereby reducing the burden of overlapping discovery in the two actions.

Lord Justice Purchas gave a concurring judgment. Lord Justice Parker also concurring, said that before an English court should stop proceedings in a foreign defendant's own court, a very substantial balance in favour of the defendant must be shown for, *prima facie*, his own courts should be competent to protect him.

For ALCI: Anthony Gribbin, QC, and Nicholas Seddon, (Solicitors), for M & R: Mark Edman, QC, and Ian Gearing (Herbert, Smith & Co.).

By Rachel Davies, Barrister

### Airline to challenge ruling

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

PHILIPPINE AIRLINES is to challenge a decision to revoke its permit to operate into Gatwick Airport near London.

It has been given leave in the High Court in London to apply to have the decision by the Secretary of State for Transport quashed.

The airline denied an allegation that it was in breach of an aviation treaty between the two countries.

The airline was not a party to the treaty, and therefore was not bound by it. Mr Denis Henry, QC for the airline, told Mr Justice McNeill.

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Times Monday March 19 1984
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AG AND ANOTHER
March 13 1984

UK NEWS

BL may go overseas for parts, suppliers told

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT
AUSTIN ROVER, BL's cars division, in a move which could have serious consequences for Britain's troubled motor components industry, is warning suppliers that orders will be switched overseas unless productivity and prices can be improved.

Dilemma for Tories on Oman affair

By Peter Riddell, Political Editor
THE AFFAIR involving Mrs Margaret Thatcher, the Prime Minister, and that of her son, Mark, in bidding for an overseas contract in Oman, is now reaching a critical point for both the Government and Labour opposition.

Underspending on defence put at £280m

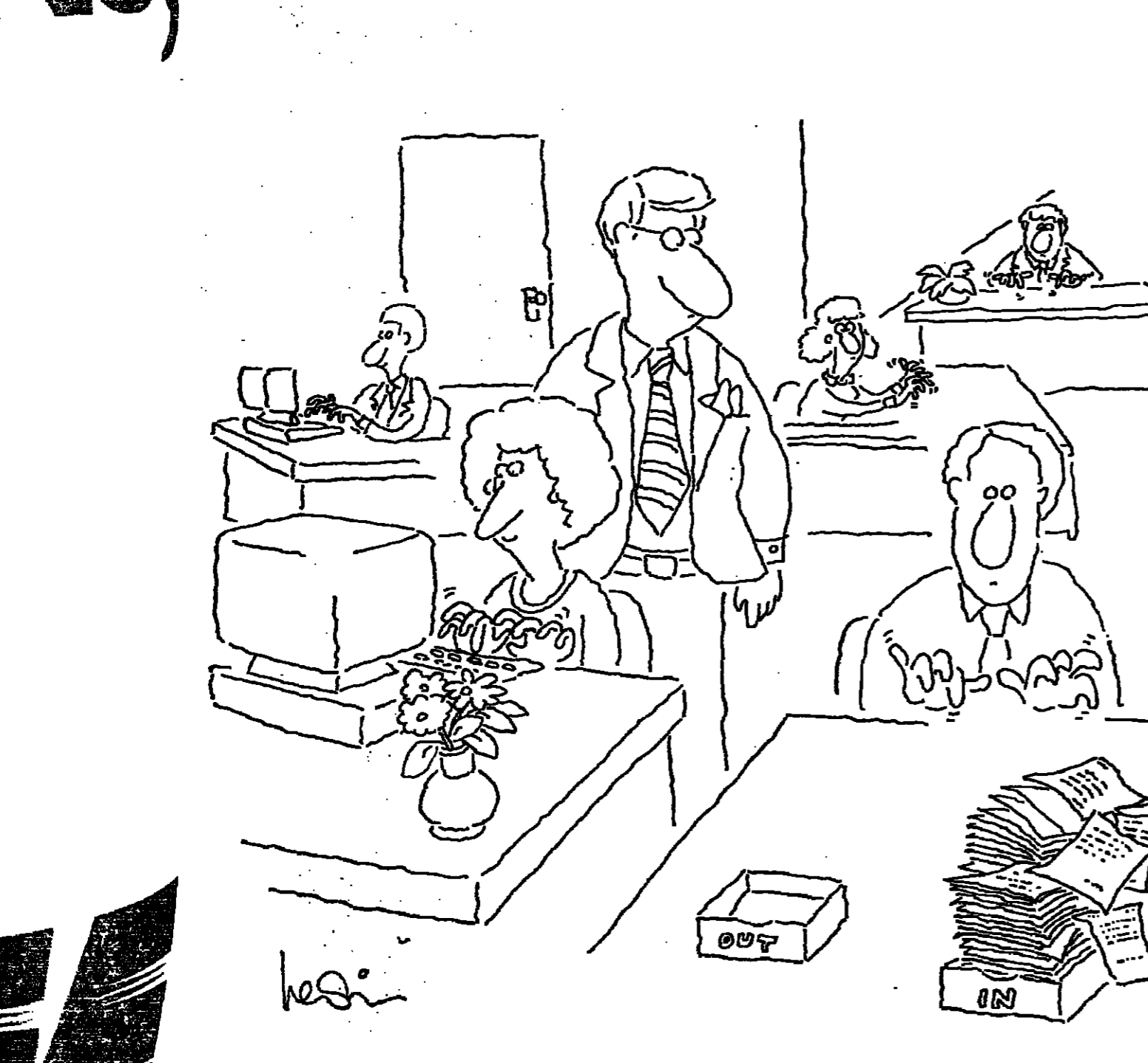
By Bridget Bloom, Defence Correspondent
BRITAIN'S defence budget is forecast to cost some £280m less than was planned, even taking into account a £240m cut imposed by the Treasury last July.

TUC rifts grow over government relations

BY JOHN LLOYD, INDUSTRIAL EDITOR
THE TUC general council faces deep and damaging divisions over its future relations with the Government - an issue which refuses to be finally resolved.

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Poor season prompts BA tours review

BY ARTHUR SANDLES IN LONDON

BRITISH AIRWAYS is reassessing its four operations activities after a winter selling season in which its main brands, Sovereign and Enterprise, have lost considerable market share to rivals Thomson, Intasun and Horizon.

After only eight months in the job Mr Alan Waddell, the general manager of Sovereign/Enterprise, has been offered another post in BA "which he is considering at the moment." He has been replaced by Mr Terry Grew.

Meanwhile, another major arm of BA four operations, Martin Rooks, is for sale. In this case the company has been doing well, but it is a direct-selling organisation and bypasses travel agents. BA has decided this provides an unnecessary area of friction with agents.

Several companies, notably Intasun and Horizon, have expressed an interest in Martin Rooks. BA denies that Mr Waddell's departure is directly connected with recent indications that Sovereign and Enterprise have been faring badly. "We are not just after market share. We are in the business of revenues and yield."

The airline argues that it was one

of the few travel groups to suggest that there might not be much growth in the market this year. Thomson was among those companies which predicted an additional 1m package tourists out of Britain this year.

The total market now seems to be marginally down on last year. In 1983, however, there was a sudden surge in late bookings and many in the industry suggest that the same thing will happen in 1984.

News of BA's problems comes at a time when the industry is examining the cost of the winter price war. If the market does not increase in size then the severe cut in margins will cause problems for those organisations which have not taken business from others.

Thomson, Cosmos and Horizon are thought to have done particularly well in the winter sales season. "For the summer of 1984 we have confirmed bookings of 270,000," says Mr Bruce Tanner, Horizons chairman. "This is 32 per cent more than at this time last year. Nearly 80 per cent of our summer capacity has now been sold."

Horizon last week reported pretax profits of £12.5m for 1983.

EARLY STATEMENT EXPECTED FROM PARTNERS IN SCOTT LITHGOW VENTURE

Rig talks at decisive stage

BY MARK MEREDITH, SCOTTISH CORRESPONDENT

NEGOTIATIONS are at a decisive phase over the completion of Britoil's cancelled order for a £38m semisubmersible drilling rig at the Scott Lithgow yard on the Lower Clyde.

Trafalgar House, the shipping and property group, and Howard Doris, the Anglo-French offshore construction company, joined forces this month in an effort to take over the yard from British Shipbuilders. But they have first had to get the approval of Britoil over the completion of the rig order which the oil company cancelled in December when construction was two years behind schedule.

Managers for the joint venture, in which Trafalgar House holds 7.5 per cent and Howard Doris 25 per cent, said last week they thought there could be a decision this week.

Talks have been going on not only with Britoil but also with the trade unions at Scott Lithgow. With Britoil's go-ahead in hand, the consortium must then complete the takeover with British Shipbuilders and get the approval of Government for a private takeover.

The rig, which is about one-third finished, is wanted by Britoil for its deep-water drilling programme.

An essential part of the talks between the two companies and Brit-

oil has been over the technical competence of the venture to complete the order. The Swedish offshore yard, Gotaverken Arendal, which has built semisubmersibles, is due to be brought in to give advice.

Questions such as the price of the order, the price for the yard, the type of works agreement with the unions and the level of any government financial assistance have to be resolved before work can be resumed at Scott Lithgow.

Britoil is thought to be unwilling to pay more than the original £38m price for the rig, while the two companies' quote is thought to be

around £130m. The difference may partly be absorbed as one third of the rig is already completed and could be discounted.

The Government pledged £185 to "wipe the slate clean" for a private takeover of the yard. It is not known how much of this will go on meeting the redundancy payments of workers not required, and how much may go towards underwriting the transfer.

Some 3,000 of a workforce which numbered 4,000 at Christmas, remain at Scott Lithgow. The new consortium is anxious to negotiate a works agreement with them similar to those at other offshore yards.

Industry row over £200m RAF order

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

A BATTLE is developing in the UK aerospace industry over the Royal Air Force's plans for a new basic trainer aircraft to replace its ageing Jet Provosts.

It centres on an order for more than 150 aircraft, worth initially about £200m, but probably more than double that during the in-service life of the aircraft to the end of the century, with spares, replacement aircraft and other support costs.

The struggle has arisen because the RAF has cut an original list of

17 contenders from 15 companies to a "shortlist" of four aircraft, only one of which is British.

The aircraft on the short-list are the Australian Aircraft Consortium (AAC) A-20, a derivative of the A-10 trainer already under development for the Royal Australian Air Force; the Brazilian Embraer EMB-312 Tucano, now entering service with the Brazilian Air Force; the Swiss Pilatus PC-9, a derivative of the PC-7 which is widely used by the Swiss and other air forces; and the British Firecracker, built by Firecracker Aircraft of the Isle of

Wight, with two prototypes flying and one due to fly soon.

All these aircraft use the Canadian Pratt & Whitney PT-6A turbo-propeller engine of about 350 shaft horsepower. No small British-designed and built turbo-prop engine exists.

The RAF and the Ministry of Defence say foreign-built designs have had to be included because of the almost total lack of British-built designs.

Originally the RAF was studying both jet and turbo-prop aircraft as possible trainers, but decided to re-

strict its choice to turbo-prop aircraft because of the cheaper initial purchase, flying and maintenance costs.

An increasing number of MPs and trades union representatives believe, however, that the RAF should support the UK aerospace industry by encouraging the development of a new British turbo-prop trainer rather than buying any foreign type.

The Ministry of Defence has stipulated that the winning design must be built in the UK.

Trafalgar reviews P&O bid

By Roy Maughan

TRAFALGAR HOUSE, the shipping, construction and energy group, is still "actively reviewing" the possibility of making a new bid for Peninsular & Oriental Steam Navigation following clearance last week from the Monopolies Commission.

The group stressed yesterday, however, that no decision had been taken, no date had been set for a board meeting to consider the matter and the subject of P&O was not even an "agenda item" as yet.

The stock market has been anticipating for some time a new offer for P&O, and the group now has a capitalisation for more than £430m against the £290m price offered by Trafalgar last May.

Trafalgar must reach a decision within 30 days of the Commission's published verdict if it wants to bid quickly. Alternatively, it would be free to make a new offer at any time after the first anniversary of the Monopolies reference on May 23. But, throughout the course of the Monopolies investigation, Trafalgar gave no indication of its eventual decision.

Rival Victor offer likely

By Jason Crisp

BRITAIN'S Applied Computer Techniques (ACT) is not the only company trying to buy the computer business of Victor Technologies. A spokesman for the bankrupt U.S. corporation said yesterday: "We are negotiating with other parties."

Last week, ACT said it had an agreement in principle to buy the marketing rights outside the U.S., and worldwide rights to Victor's Sirius personal computer.

ACT said yesterday that it hoped final details of the deal would be concluded by the end of this week.

Aid group seeks policy review

By Quentin Peel

AN INDEPENDENT group of British aid specialists has called for a Royal Commission to be set up to review all aspects of British Government policy affecting the poorest developing nations, including both aid and trade policies.

In a report published today, they argue that a whole range of Government actions, including its overall monetarist economic policy, has had disastrous effects on Third World economies.

The Independent Group on British Aid includes representatives from Christian Aid, Oxfam, the Overseas Development Institute and the World Development Movement.

It claims that policies of trade restraint have severely damaged the exports of the poorest countries, while high interest rates in the West have "virtually bankrupted" much of the Third World.

Key recommendations include granting duty-free access to the UK market and exemption from restrictions of the Multi-Fibre agreement; British Government initiatives in proposing new international arrangements to stabilise the commodity earnings of developing countries; and an easing of IMF terms for credit to take account of the need for long-term structural adjustments in the Third World.

BUSINESSMAN'S DIARY

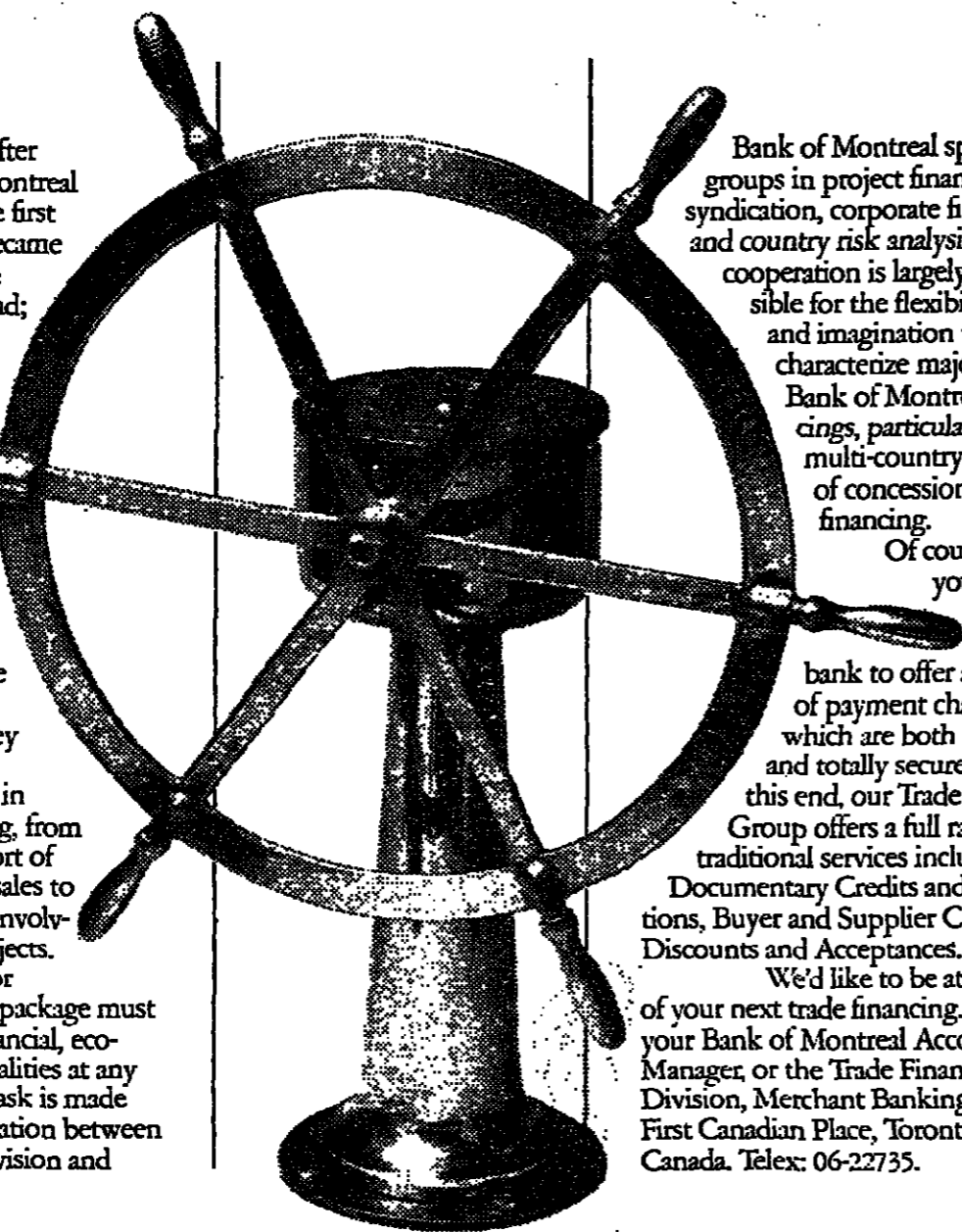
- UK TRADE FAIRS AND EXHIBITIONS**
- April 2-6 International Heating, Ventilation, Air Conditioning and Building Services Exhibition (021-705 6797) NEC Birmingham
  - April 2-5 Computer-Aided Design Conference and Exhibition - CAD (01-643 8040) Brighton
  - April 9-13 Audio Visual Exhibition (01-668 7785) Wembley
  - April 9-13 International Fire Exhibition - LIFE (01-337 5050) Olympia
  - April 12-14 Driller '84 (0277 220609) Keelworth
  - April 16-18 Solids Handling Exhibition - SOLIDEX (Oxford) (0895) 58431 Harrogate
  - May 1-2 All Electronics ECIF Show (0799 26609) Barbican
  - May 1-3 Fibre Optics Exhibition and Conference (0799 26609) Whitbread Porter Tun Rooms
- OVERSEAS TRADE FAIRS**
- March 23-26 International Fur Trade Fair (01-734 3953) Frankfurt
  - April 24-27 Intid and Hotel Asia (01-628 1961) Singapore
  - April 30-May 4 Direct Marketing Symposium and Exhibition (01-69 45 20) Hoagress
  - May 10-13 Asian Automotive and Accessories Exhibition (Guilford) (0453) 30555 Singapore
  - May 10-16 International Packaging Exhibition and Display of Confectionary Machinery - INTERPACK (01-493 3935) Düsseldorf
  - April 3 Exhibition of Law: Tax avoidance after the House of Lords' decision in Forsyth v Dawson (01-283 1030) City of London Polytechnic, EC2
  - April 5-5 Maritime North West: Ultrasound for the offshore and oil industry (061-273 3278) Manchester University
  - April 4-5 ISBA: World Industrial Advertising Congress (01-499 7302) Paris
  - April 5-6 FT Conference: Multinationals and European integration (01-621 1355) InterContinental Hotel, W1
  - April 6 IFS: The Budget and the Finance Bill (01-228 7945) St Ermins Hotel, SW1
  - April 6-7 Metal Bulletin: 2nd International Conference on Copper (01-330 4311) London Marriott Hotel, W1
  - April 11-12 FT conference: European banking (01-621 1355) Milas
  - April 22-27 Solar Banks and computers (1) 783.0724) Paris
  - April 25-28 Progress - Foundation / IMF money - search for common ground (091) 88 93 69) Lugano, Switzerland
  - May 2-4 FT/The Banker: world gold liberalisations taking stock (01-738 3456) Waldorf Hotel, WC2

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Financial Times Conferences

The following is a list of conferences being organised by the Financial Times in 1984:

- THE SECOND AUTOMATED MANUFACTURING CONFERENCE - TOOLS FOR COMPETITION** London, 27 and 28 March
- MULTINATIONALS AND EUROPEAN INTEGRATION** London, 5 and 6 April
- EUROPEAN BANKING** Milan, 11 and 12 April
- THE FT WORLD GOLD CONFERENCE** Hong Kong, 3 and 4 May
- SITEV - FT WORLD MOTOR CONFERENCE** Geneva, 23 and 24 May
- THE FT/CITY COURSE** London, 3 May/20 June
- THE ELECTRONIC OFFICE** London, 5 and 6 June
- OIL AND GAS** Oslo, 18 and 19 June
- WORLD ELECTRONICS** London, 20 and 21 June
- FOREIGN EXCHANGE** London, 25 and 26 June
- WORLD AEROSPACE CONFERENCE** London, 28/29/30 August

All enquiries should be addressed to: The Financial Times Limited, Conference Organisation, Minster, House, Arthur Street, London EC4R 9AX. Telephone: 01-621 1355 (24-hour answering service). Telex: 27347 FT CONF. Cables: FINCONF LONDON

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UK NEWS

Boffins get a taste for business

Commercial links between university research and business have spawned a wide range of companies. Peter Marsh reports.

FROM SOYA SAUCE to satellites and from bacteria to bat detectors - a new breed of entrepreneurs in Britain's universities is venturing out into the world of commerce.

Aberdeen University has had probably the most institutional success in promoting small businesses. About two years ago it set up a holding company to manage its relationships with industry.

Lord Flowers, rector of Imperial College, London, and chairman of the Committee of Vice Chancellors and Principals, says: "Most economy measures have some good effects and this has been one of them."

£350,000 a year. It has a full-time staff of 30, supplemented by other university employees when required. The company's products include instruments to detect bat sound and hardware that monitors the fierce reactions inside fusion test beds.

DBSBANK THE DEVELOPMENT BANK OF SINGAPORE LTD. US\$70,000,000 5 1/2% Convertible Bonds due 1998. SUSPENSION OF BOND CONVERSION NOTICE IS HEREBY GIVEN that the Bonds will not be convertible during the period 2 May 1984 to 8 May 1984.

DBSBANK THE DEVELOPMENT BANK OF SINGAPORE LTD. US\$70,000,000 5 1/2% Convertible Bonds due 1998. NOTICE IS HEREBY GIVEN that copies of the 1983 Annual Report of The Development Bank of Singapore Ltd will be available from 23 April 1984 at 1) DBS Bank London Branch.

DBSBANK THE DEVELOPMENT BANK OF SINGAPORE LTD. US\$75,000,000 15 1/2% Notes due August 12, 1989 and 75,000 Warrants to Purchase US\$75,000,000 14% Notes due August 12, 1989.

At the other end of the spectrum is Dr Frank Grundfeld, a 26-year-old electronics specialist from Warwick University. Financial institutions have three times rejected his requests for cash to start up a company in thin films for semiconductors.

Mr Keith Sellar, the company's chief executive, an ex-commercial lawyer, came to the university assembly for a 2 hour a week retirement job. Now he works full-time presiding over 40 employees and an annual turnover of £350,000.

Industrialists are becoming more patient in their attitudes toward investments, says Professor Derek Smith, chairman of Udil - the University Directors of Industrial Liaison. Prof. Smith is also managing director of QMC Industrial Research, the industrial arm of Queen Mary's College, London.

For example, Dr Mike Smith, a computer specialist from Reading University, works with a Woking company called Micro Control Systems on the design of hardware for monitoring industrial processes.

Mr Clive Thornton, former chief executive of the Abbey National Building Society and chairman of the Mirror Group since December, expects to present his strategy at the beginning of April to Mirror's parent company, Reed International, and to financial institutions interested in backing the flotation.

Mr Thornton has suggested marketing the shares by giving them away as prizes in the Mirror's bingo competition and printing the prospectus for the flotation in all editions of Mirror newspapers.

He hopes to have the Mirror Group flotation in "the first half of the year," but says that it would be better to follow the Reuters flotation.

"We would have had to have gone well in advance of Reuters before the full details of the flotation had been decided. Some of our advisers are closely involved with Reuters and they would have been forced to disclose in our prospectus any information they knew about Reuters' plans," he said.

Mr Thornton said a number of financial institutions have agreed to support him if he can reach agreement with the unions. "They seem doubtful that I can achieve in three months what others have failed to achieve in 30 years, but our discussions have been in a most co-operative spirit and I am very optimistic," he said.

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Insurance, Savings, Loans, Pensions, Euromarkets, Leasing, Banking, Bonds, Building Societies, BES, Licensed Dealers, Venture Capital and many others, are all competing for business. Make sure you are getting your share, and more. Speak to Jack Klein at Management Motivation.

BULLSEYE. A map of Europe with concentric circles centered on London. The circles are labeled with distances: 160 miles, 200 miles, 270 miles, 400 miles. Various regions are labeled: CLYDESIDE, TYNESIDE, BELFAST, MERSEYSIDE, MIDLANDS, EUROPOORT, SOUTH WALES, MEDWAY, BRUSSELS, FRANKFURT, MANNHEIM, STUTTGART, PARIS, RUHR, HAMBURG.

● Ideally located for the UK's largest markets - London and the South East. ● Well placed with passenger and freight ports for Europe. ● Good motorway and rail links to London, international airports and the coast. ● Local executive airport for international connections. ● Large, young, skilled labour force. ● Excellent labour and industrial relations. ● Set in the beautiful Kent countryside with dozens of Yacht Marinas, Water Skiing, Golf and other leisure facilities. ● Reasonably priced land, premises and housing. ● Enterprise Zone benefits on designated sites.

NEW! A high rate on US dollar deposits and your own cheque book. 9% compound. TYNDALL BANK DOLLAR MONEY ACCOUNT.

Now Tyndall Bank offers you an easy way of earning higher interest on US dollar deposits whilst retaining complete access to your savings at all times. Tyndall's new Dollar Money Account enables expatriates and other overseas residents to benefit from rates of interest normally only available to major investors in the London money market.

Tyndall Bank (Isle of Man) Limited Dept FTFM, 30 Athol Street, Douglas, Isle of Man Telephone: (0624) 29201 Telex: 628732

Vertical text on the left margin, including 'Times Monday March 19 1984', 'S DIARY', 'FAIRS', 'IT', 'Times Conferences', 'Automated Maintenance', 'World Gold Conference', 'World Motor Conference', 'Electronic Office', 'World Electronics', 'Foreign Exchange', 'Aerospace Conference'.



10 COMPANY NOTICES

CHANGE OF ADDRESS
THE TOYO TRUST AND BANKING CO LTD
Please be advised that with effect from today, our new address is: 5th Floor, Backerbury House, 83 Cannon Street, London EC4N 3AJ

CREDIT EQUIPMENT
DES FETTES LES YVYENNES
ENTREPRISES
Corporation organized under French law...

SECOND NOTICE TO HOLDERS OF BONDS
1982-1990
1983-1990
1984-1990

LE DIRECTOIRE
PROVINCIAL
10% 1978/1994 US\$50,000,000
Pursuant to the terms and conditions...

CLUBS
THE GILBERT OF St. James's, London's
most exclusive gentlemen's night-time
club...

ART GALLERY
BROWN & DABNEY, 15 Lark St., W.1.
01-734 7894. JEFFERY CAMP, Recent
Paintings.

Bryant construction
Quality construction and refurbishment
Midlands & Thames Valley
021-704 5111

McInerney wins £8m orders
McINERNEY PROPERTIES, Dublin, subsidiary and associated companies have won over £8m orders. The principal items were: 89 houses at Plymouth in joint venture with Plymouth City Council (£1.3m); 70 retirement flats at Middleton-on-Sea, Sussex for Meridian Housing Association (£1.3m) 53 retirement and starter houses at Ashford, Kent for Meridian Housing Association (£1m); and 48 houses in Lavant, Chichester in joint venture with Chichester District Council (£1m); all being built by McInerney Homes; 109 houses at Santry, Dublin for Dublin Corporation by Thomas McInerney and Co (£2.5m); Industrial premises at Doha, Qatar for Qatar State by Gulf Housing Co (£750,000).

Money Market Bank Accounts (continued)
Darlington & Co Ltd
Lombard North Central PLC
M & G Group
High Int Co Ltd
High Int Co Ltd

CONSTRUCTION CONTRACTS
£15m work for French Kier Construction

FRENCH KIER CONSTRUCTION has been awarded contracts to the value of £15.3m during February. These include a vehicle distribution depot at Sandwich, Kent for VAG (UK), a leisure centre and swimming pools in Felkinstowe for Morgan Grenfell Finance, and major roof works to the North Barbican Podium for the City of London. Other clients include: Kent County Council, Starnway, Cambridge Consultants, Southern Region, DOE, and Greater London Council.

BALFOUR BEATTY CONSTRUCTION has been awarded two contracts. Valued at £11.3m, the first is for a three-storey office block in New Bridge Street, Walsall. Work has started with a 24-week construction programme. The client is N.F.C. Properties, Bedford. The second, valued at £275,000, is for the Hartingme Housing Association, Liverpool, and covers Phase I construction of 20 houses in seven separate blocks. Work has started with a 30-week construction period. Balfour Beatty is a member of the BICC Group.

TAYLOR WOODROW CONSTRUCTION has been awarded a contract to build an office block in New Bridge Street, Walsall, for Taylor Woodrow Developments, scheduled for completion in July, 1985. The building will have four, five and seven-storey sections and will include refurbishment of a two-storey, Grade 2 listed building at 16-17 Bridge Street as part of the development. Piled foundations will support a reinforced concrete frame with external walls to be brick with asphalt-covered flat roofs and slate-covered pitched and mansard roofs. Carpeting, full air conditioning, and lifts, are included.

MOWLE INTERNATIONAL has been awarded a £5m contract by the Government of Uganda for the upgrading of the central streets of Kampala. The work will be carried out over two years and comprises about 30 km of road, some of which is dual carriageway. Drainage improvement, kerb realignment, pavement repairs and asphalt concrete overlay are included. A new section of road will be constructed which will allow heavy vehicles to bypass the city centre.

WALTER LAWRENCE CONSTRUCTION has been awarded a contract by the British Housing Society, is building sheltered accommodation at 175, Willesden Lane, W6, at a cost of £1.5m. Specially designed for elderly people, the scheme will provide a total of 62 self-contained flats for either one or two persons and six larger units on the ground floor for wheelchair-bound residents. Each room is linked by a 24-hour a day alarm call system to the warden. Three communal lounge/common rooms are also provided together with two automatic lifts and a self-contained guest suite for visitors. All units will have fully fitted kitchens and specially designed bathrooms complete with safety aids.

SOMALI DEMOCRATIC REPUBLIC
MOGAMBO IRRIGATION PROJECT
PROVISION OF AGRICULTURAL MANAGEMENT APPLICATION FOR PREQUALIFICATION

The Mogambo Irrigation Project will develop irrigated agriculture over a net area of about 2,200 ha using water abstracted from the Juba River and the construction of these works is proceeding under the terms of agreements for financial and technical assistance from the Somali Democratic Republic. The management team of expatriates who will have full executive powers shall comprise: 1) Rice farm manager (Deputy General Manager) 2) Field manager 3) Chief accountant 4) Plant production specialist 5) Rice miller 6) Chief foreman/mechanic 7) Short term specialist may be required from their head office. In addition an agronomist irrigation engineer will be provided by the Mogambo Irrigation Project. The team will be required to train Somali personnel who will eventually take over the management. Prerequisite of Tenderers: Tenderers who wish to be prequalified for the above Contract should submit their names and addresses to be received by the Consultant before 15th April 1984. Details of the project, agricultural management experience, financial status and ability to provide the management team required, including short term specialists and head office back-up. Consultant: The Consultant, to whom applications for prequalification should be sent is: SIR M. MACDONALD & PARTNERS LTD. DEMETER HOUSE, STATION ROAD, CAMBRIDGE CB1 2NS. UNITED KINGDOM. who will acknowledge all applications. Language: Submissions of original documents, or copies thereof, which are not in English, should be accompanied by a certified English translation. Signed: THE GENERAL MANAGER, SOGAMBO IRRIGATION PROJECT, DEMETER HOUSE, STATION ROAD, CAMBRIDGE CB1 2NS. SOMALI DEMOCRATIC REPUBLIC

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TECHNOLOGY

EDITED BY ALAN CAME

VENTURE CAPITAL FOR TECHNOLOGY

Golden bridge to 'fun'

BY DAVID FISHLOCK, SCIENCE EDITOR

"A LOT of people in the City don't meet people," says Dr Richard Hargreaves. This business is all about building a relationship with both sides.



Dr Hargreaves, bringing technology and investment together

For Dr Hargreaves the two sides are the would-be entrepreneurs in technology and the financial institutions of the City.

He rejects the term "broker" — he claims to put more work into a venture than the term justifies and wants to retain a financial interest for his own company.

Where Hargreaves differs from most City people is that he finds technology and its creators "fun". It was a word he used often in the offices in London Wall of Baronsmead Associates, the venture capital agency he launched little more than a year ago, with the support of the Newmarket Company (1981) Limited, a Casanova venture.

Dr Hargreaves believes he can bring a difference perception to these problems in the case of technology-based ventures. His own experience is rooted in technology, starting with Cambridge degrees in engineering, followed by a PhD in electrical materials science from Imperial College, London.

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ing because SERC was "not too good at monitoring the results." So he moved to the City, with IFC (now renamed St Investors), where he remained in venture capital—not exclusively technology—until he founded Baronsmead late in 1982.

His aim is simply to help people get started in business, he says. As he sees it, the climate for start-ups is improving "but it's still harder than it used to be even quite smart people to raise money."

Both sides present problems. The City is still too cautious—too few real risk-takers compared with the U.S., he says. The entrepreneur tends to be naive in such matters as management, money and marketing, too often offering "a solution in search of a problem."

A pre-requisite, Hargreaves finds, is that he must like as well as respect the entrepreneur. Peter Davey is a man one can readily both like and respect. But Hargreaves is raising larger sums for other ventures. He raised £1m last autumn to launch Interface Network, a scheme to open a chain of shops specialising in microcomputers for the professional market.

The chain—they are talking of 80 stores—will use high-technology systems itself, such as electronic mail, to enhance standards of service. "It's all about the team being very smart," says Hargreaves. James Minotto and Brian Allmyer—were finding the City very hard going because of its fears of a disaster shake-out among makers of small computers.

Altogether, Baronsmead has done 18 deals for entrepreneurs, raising from £250,000 to £1.5m—in total, about £9.5m. It tends to raise more than the entrepreneur says he needs.

Electronics Polytechnics plan £4m centre

TWO LONDON polytechnics are trying to raise £4m to set up a microelectronics centre for industry.

Middlesex Polytechnic and the Polytechnic of Central London would let companies use facilities both to design and produce electronic circuits. The cash would fund extra staff at the two institutions and the purchase of new hardware.

The polytechnics would also run short courses to teach the latest microelectronics techniques to engineers working for companies.

Dr John Butcher, head of the school of electronic and electrical engineering at Middlesex Polytechnic, says that the scheme could ease the critical shortage in industry of engineers who know about design and production techniques in electronics.

The two polytechnics could especially help small companies which have no facilities of their own to design or make chips. These companies could benefit even if they restrict their activities simply to using electronic hardware.

The electronics industry is gradually accepting that companies are unable to use silicon devices properly unless they know how the hardware is made," says Dr Butcher.

The centre would be based on existing facilities at the two London institutions. The Polytechnic of Central London owns hardware on which students design chips with the aid of computers.

And Middlesex Polytechnic has invested some £1.5m over several years in production equipment that turns out semiconductor devices. With Edinburgh University and Southampton University, the polytechnic is one of just three academic bodies in Britain that operate chip-making hardware comparable to that found in industry.

In other work at Middlesex Polytechnic, engineers hope to start a joint project with companies in what is called water-scale integration.

In conventional chip production, electronic circuitry is introduced to a semiconductor wafer perhaps 10 cm in diameter. The wafer is then cut up to produce hundreds of individual chips, some of which have to be thrown away because they are defective.

In water-scale integration circuitry is built into the wafer such that the individual chips connect up to each other. Engineers no longer need to cut up the wafer—it forms a complete system that can then be plugged into electronic equipment.

Some of the chips may be defective, as in the conventional manufacturing process. But the system is constructed so that it diagnoses for itself where the faults are.

Electrical signals therefore travel through the circuitry in such a way as to avoid the defective areas. The engineer using the system never needs to know which parts of the wafer are not working properly.

According to researchers at Middlesex Polytechnic, who have applied to the Government's Alvey information-technology programme for cash to fund their work, water-scale integration could lead in certain applications to cheaper electronic systems.

PETER MARSH

SECOND GENERATION TURBOCHARGERS New boost for turbos

BY JOHN KERR IN SAN FRANCISCO



Turbo cars may benefit from next generation design.

DRIVERS of turbo cars are invariably enthusiastic about the performance of the machines. But they are increasingly critical of turbo "lag"—the perceptible delay between standing on the accelerator and feeling the kick that indicates boost from the turbocharger.

So engineers are developing second-generation turbos that give rapid response with strong boost all the way from engine idle to high revolutions per minute. One promising solution is variable-geometry turbocharging.

Turbocharging—using engine exhaust energy to spin a tiny turbine whose compressor wheel crams more air into the engine intake—has long been a highly effective means of boosting torque and power in trucks and in marine and industrial diesels. That is because turbos work best with engines that run with narrow speed and load ranges; in trucks, where acceleration is limited, turbo lag is unimportant.

But in power generation sets, lag can cause AC frequency jump from the standard 50 Hz during sudden electrical load changes. In cars, a large turbo matched to low engine speeds gives too much boost at high engine revs—and its inertia produces considerable lag. A light, nimble turbo engineered for high engine speeds will spin up quickly when needed, cutting

lag, but will be breathless at low engine revs. Essentially a steady-state device, the turbocharger is a poor match for the wide speed range of a car engine. Even in trucks, it is less effective at lower revs/min as the turbo rotor slows down and runs out of breath.

What is needed for all applications is a rotor that maintains a high rotational speed, ready to kick in forcefully and instantly even at low engine speeds.

Variable-geometry turbocharging does just that. One key arrangement features a ring of about 50 pivoting aerofoil-shaped vanes around the periphery of the turbo's turbine wheel. At low engine speeds, they bunch up like closed venetian blinds to present a series of tiny "throats" that accelerate the exhaust gas flow and make the turbo rotate faster.

At high engine revs, swivelling the vanes back opens the "throats," backing off exhaust flow to prevent overboost. The technique is borrowed from water turbine control in hydroelectric power stations. Control can be linked to inlet manifold pressure and/or engine speed. In the future, microprocessor control is likely.

the time to reach 1.6 bar boost pressure—from 3.2 to 1.1 seconds. And matching its unit to the same mass flow as a conventional Garrett A16 research turbo at 6,000 revs/min engine speed, Aerodyne reports 15 hp more—up to 160 hp—from a Ford Thunderbird Turbo Coupe with much improved drivability thanks to less lag.

There are other benefits. Holset Engineering of Huddersfield, a major manufacturer of truck turbos, is also well down the development track with an undisclosed nozzle-vane turbo and is expected to unveil a pre-production prototype next year.

The University of Bath confirms these levels of improvement in its independent tests backed by the Department of Trade and Industry. In the U.S., the U.S. Army's R and D wing has sponsored an advanced turbo programme on diesel tank engines. Fitted with a turbo featuring variable geometry on the compressor as well as the turbine side, a 750 hp 12-cylinder air-cooled diesel doubled peak torque ratings.

V-G turbos are challenged by a myriad alternative innovations: ceramic rotors whose minimal inertia permits rapid spin-up; three-wheel hydraulic and electric turbos; hyperbar systems that resemble the afterburner in an aero engine; compressor bypass—these are just a few.

Design Chip layout by computer

A COMPUTER aided engineering and design software system has been developed by Mentor Graphics in Beaverton, Oregon. It is the company's first entry into the full-custom integrated circuit design market.

Mentor says that the Chip-graph editor speeds up and simplifies the creation of very large-scale integrated circuits. Each cell stored in the computer represents a particular logic component and has data on the technology rules for interconnection to other cells and other relevant data. More details from the company in the U.S. on (503) 626 9817.

Telecom Computer protocols

BT Merita, British Telecom's office automation company, has adopted a communications protocol for microcomputers devised by a U.S. company, Microcom Inc.

It believes the protocol, which Merita will market under the name T-Link, stands a good chance of becoming the industry standard for communication between personal computers. Based on the model for open systems interconnection, T-Link is supported by Merita, IBM, ICL and Apple Computers among others, Merita says. More on 0344 56661.

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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Product development

# Philips looks to design for a boost

BY CHRISTOPHER LORENZ

COR VAN DER KLUGT, one of the top three executives of Philips, has spent a lot of time recently puzzling about why consumers flock to buy shoes and shirts with "designer" labels on them.

No, the somewhat Calvinistic Dutch electronics group is not planning to compete with Gucci or Pierre Cardin. But, as the head of Philips' troubled consumer electronics activities, van der Klugt is obsessed with the need to match the skill of his all-conquering Japanese competitors in creating demand for their new products—a skill which has much in common with the fashion business. He sees industrial designers playing a crucial role in, as he puts it, "second-guessing" likely consumer preferences: not only for colours, shapes and styles, but also for entire products.

With the advent of "world products," shorter product life cycles, and all today's other competitive pressures, van der Klugt says designers can no longer just be called in at the eleventh hour to add an attractive external appearance to objects which teams of engineers and marketing men have already developed.

Instead, he argues, designers "should have a voice in the product's birth, as a full member of the team."

That's the way it's starting to be at Philips. No mere theory in the executive suite, van der Klugt's new dedication to design is spreading to all the company's 12 product divisions.

Two levels below van der Klugt, Francois Dierckx, head of his within the audio division, eagerly draws diagrams of the growing saturation and technological maturity of several product markets to explain why he has radically upgraded the role of industrial design since he took over in 1981. In his, "as much as 70 per cent of the product development process is now design," he claims.

Jan Tollenaar, his opposite number in the personal care section of the small domestic appliances division, goes even further, talking in terms of industrial designers acting as "product managers"—co-ordinators of the development team.

In several parts of Tollenaar's empire industrial designers have recently begun to initiate major product changes, involving costly investments.

In the lighting division, too, industrial designers have begun to initiate or co-ordinate the development of some highly successful new products.

Even on some of the company's "heavier" product lines, where the scope for industrial design is far less obvious, it is beginning to be treated by engineers and commercial staff as more than just cosmetics.

Though the first initiative taken with these divisions by Philips' new design chief, Robert Blaich, was largely styling—a corporate image harmonisation programme for all "professional equipment"—he recently helped persuade three of the units, including data systems and telecommunications, to take a more far-reaching step and begin co-operating on the development of TV monitors.

But, reporting direct to van der Klugt, Blaich has given valuable impetus to the process and especially to the growing readiness of engineers and marketing staff right down the organisation to involve his designers as equal members in their teamwork from the very start of the product development process.

Though Blaich's predecessor as head of what Philips calls its "Concern Industrial Design Centre" had also reported directly to the management board—giving him a higher status than the top designers in most companies—many of his staff lacked authority in the various product divisions. This was partly because he was heavily identified with the styling side of design, but also because of the way the centre, with its staff of 200, was organised.

One of Blaich's first moves was to give it a more devolved and managerial structure, in which a designer's seniority was determined not only by his technical expertise and experience, but also by his forte as a manager. Six "design managers" were created, each assigned to be responsible for the centre's work for particular product divisions, and with several "contact designers" reporting to them. They were urged to integrate themselves as closely as possible into the divisions. Blaich has also recruited considerable new blood into the centre.

The new structure has encouraged divisional engineers and commercial executives to look on designers as like-

more than one year ahead." Hence his emphasis on the value of the strategic role which designers can play.

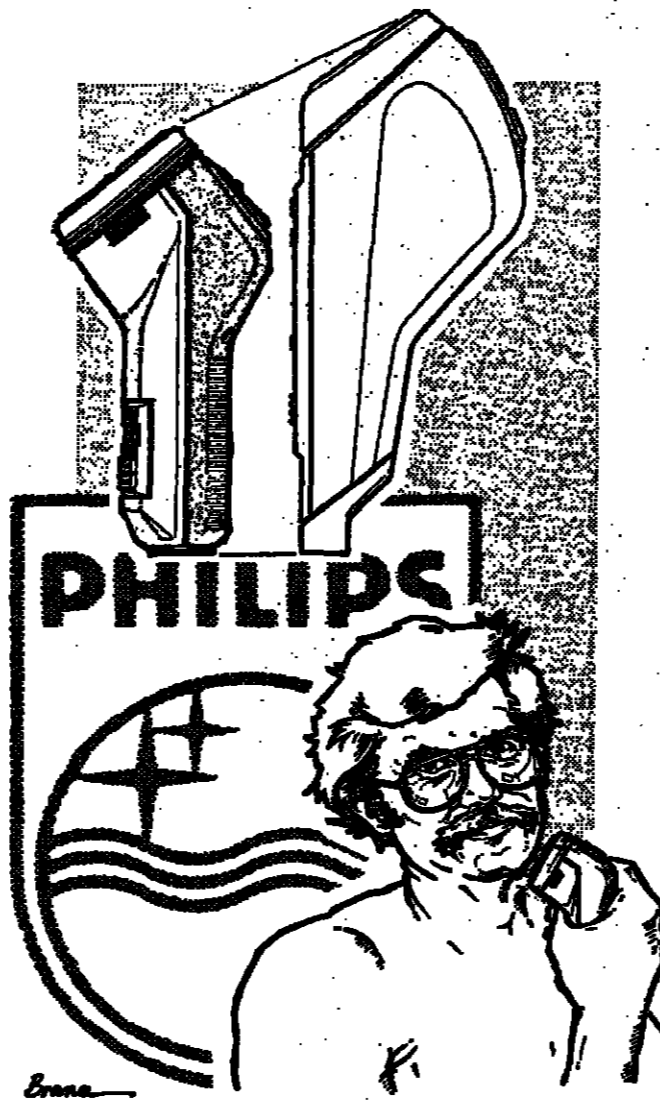
The gradual transformation of industrial design which is now under way at Philips, from a styling tool to something far more substantial, had begun before late 1980, when Bob Blaich was headhunted from his consultancy in the United States; for many years before that he had been design director of one of America's most successful furniture companies, Herman Miller.

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The new structure has encouraged divisional engineers and commercial executives to look on designers as like-



PHILIPS

mined and useful generalists, rather than as specialised and rather peculiar technicians. In quite a number of divisions, it has eased the designers' way onto product programmes at a very early stage, and even in a couple of cases onto various general strategy committees. It has also stimulated communication between overlapping divisions.

This integration into divisional decision-making is no easy process. "A lot of it relies on personal chemistry between the people concerned," says Blaich. He admits that some development engineers, in particular, have resisted the designers' growing muscle, and his deputy, Frans van der Put, confirms that the reaction of the divisions "varies enormously."

The senior designer for personal care products, for example, had been integrated into the division's interdisciplinary product team even before Blaich's arrival. But in the audio division Francois Dierckx

has felt it necessary to get several of Blaich's designers to act as a direct resource to him rather than form part of the divisional product team beneath him; designers do take a full part in lower-level "working teams" for individual products, however.

"Strong design is only possible if you insulate it from the development engineers," claims Dierckx.

But Dierckx's reason for wanting direct contact with Blaich's designers also has a more positive side. It helps "bring together marketing and development," he says, supporting the frequent demand of industrial designers that they should be given an especially valuable role as catalysts between other managerial functions. Mike Jankowski, a Scotman who works for Blaich, says "marketing and engineering people mention things without realising their potential. The design environment is a cacophony of noise."

The trouble was that, as consumer tests showed only too clearly, the rest of the market disliked it intensely. Which made the divisional team nervous, since Philips has always aimed to give its shavers a very general appeal. This had to be restored if it was to avoid dangerous competitive attacks—not only from its arch-rivals Braun and Remington, but also from the

## Giving birth to a new shaver

THE NEW Philipsave (out left in the illustration) is a triumph for Peter Nagelkerke, the mustachioed young Dutchman who was design manager on its development programme, which ended last year with the shaver's launch in the U.S. and on the Continent (it arrives in British shops in May). In almost every way it represents a considerable advance on its much larger and heavier 1980 predecessor (right).

The personal care division may have to follow many other parts of Philips in speeding up its innovation cycle if Japanese competitors weigh in with a faster flow of products. But at present it is sticking to its established pattern of launching a new shaver every three years, after a four-to-five year development cycle.

So in 1978, when the company had almost completed the development of the 1980 model, its first shaver with twin "retractable" blades (as opposed to single blades), Nagelkerke was already planning work with an interdisciplinary team of engineers and marketing men on its successor.

The marketing people had wanted the 1980 product to look different from its predecessor in order to communicate to consumers the technological innovation it contained. So the designers provided a streamlined shape, with the blades set at nearly 90 degrees to the stem of the shaver as in previous models, but emerging more directly out of it. To power the extra blades, the 25-year-old motor design had to be "stretched" and enlarged. The result was a heavy shaver which was awkward to use. But a portion of the market found it extremely attractive, and it sold well. It still does.

The trouble was that, as consumer tests showed only too clearly, the rest of the market disliked it intensely. Which made the divisional team nervous, since Philips has always aimed to give its shavers a very general appeal. This had to be restored if it was to avoid dangerous competitive attacks—not only from its arch-rivals Braun and Remington, but also from the

Japanese, who were already going for much smaller shavers, on the usual Japanese principle of "precision miniaturisation."

All of which strengthened Nagelkerke's belief, shared by the ergonomics of the 1980 shaver, he also wanted to get back to—or even below—the size of the previous line of machines. Given the need for extra power and extra transmission for each of the three twin blades, this was a pretty tall order. Leaving extra room for all sorts of future electronic features, including automatic voltage selection, it meant the engineers would have to develop a new type of motor which was less than half the size of the one in the 1980 model.

The development engineers were understandably not amused, but with his marketing colleagues, he set to work to win a series of arguments—and to justify the expenditure of millions of dollars on the new motor line and other improvements, at a time when Philips' gross profits were in a nosedive. At little more than half the weight of its predecessor, about a fifth shorter, and with its heads at a more comfortable angle, the new machine is much more convenient to hold and to use.

Nagelkerke also won a battle for the use of better quality plastic for the shaver's casing. Thermosetting, used for 25 years, previous models were prone to breaking easily and coming out of its mould with rough edges. Thermoplast, which Nagelkerke advocated, gives a much more precise surface and is easier to make in varied thicknesses.

Again he had to fight conservatism, in this case from production engineers in Philip's North Holland shaver plant. His weapons in a more general struggle to improve the quality of manufacture included newly crafted chisels, which he took into the factory to illustrate Japanese dedication to the meticulous treatment of high-quality materials. The effect? "It was rather a fight—almost as tough as over the motor. The factory people weren't used to things like that."

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## Business courses

Law of buying and selling, London, April 11-12. Fee: £14/45V after April 8. Details from J.R. Van Wyck, Seminar Division, Crown Eagle Communications, 2 Bloomsbury Place, London WC1A 2QA. Tel: 01-636 0617. Telex: 896227.

European banking conference, Milan, April 11-12. Fee: £400. Details from the Financial Times Conference Organisation, Minister House, Arthur Street, London EC2A 8AX. Tel: 01-621 1355. Telex: 27247 FTCONF G.

What is the regulatory grid? Brunel, April 12-13. Fee: £250. Details from The Secretary, Management, F.R.G.S.A.M. in Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0885-96461.

Computer integrated manufacturing and the effects on production and inventory control, Coventry, May 10. Fee: £200. Details from The Secretary, Management, F.R.G.S.A.M. in Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0885-96461.

Principles of professional salesmanship, Brunel, May 14-15. Fee: £200. Details from The Secretary, Management, F.R.G.S.A.M. in Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0885-96461.

Productivity techniques—the state of the art, London, May 24-25. Fee: £100. Details from The Secretary, Management, F.R.G.S.A.M. in Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0885-96461.

Financial management of research and development, Buckingham, May 15-16. Fee: £200 plus VAT. Details from The Secretary, Management, F.R.G.S.A.M. in Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0885-96461.

Marketing management centre, Brunel, May 22-23. Fee: £200. Details from The Secretary, Management, F.R.G.S.A.M. in Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0885-96461.

Marketing for profit—new approaches, London, May 10. Fee: £125. Details from The Secretary, Management, F.R.G.S.A.M. in Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0885-96461.

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المدينة المنورة

THE ARTS

Architecture
Collin Amery
In two dimensions

It is an exciting event when a large part of the top floor of the Centre Pompidou in Paris is given over to the subject of architecture. The exhibition, Images et Imaginaires D'Architecture (until May 28), must be one of the largest displays of images of architecture seen recently in Europe. It is not an exhibition of drawings exclusively by architects but a show of designs, photographs, graphic stage and cinema designs—all genres inspired by architecture.

Of course there are a great many architects' drawings: drawings that have had an incredible influence on the look of the 20th-century city and on the way that each generation looks at the artefacts of the built world. The time-scale of the exhibition is a long one: the whole of the 19th and 20th century comes under examination. It is a review of the architectural drawings on the surface but underneath it is a history of architecture as a reflection of society.

Because architecture is such a difficult subject to exhibit successfully there is an increasing interest in the drawing as a means of displaying public consumption. I am often tempted to wonder whether the rising interest in architectural drawings can be paralleled by the increasing interest in recent architecture as seen in three dimensions.

The Pompidou Centre offers an interesting example of contemporary architectural creation as a background to some of the finest drawn examples of architectural achievement of the past two centuries. I personally loathe the building as a public place of enlightenment and culture, although I can see the versatility of the technology. I find it less appealing than the Eiffel Tower as an

example of clever engineering. The centre is dirty and confusing and the three-storey circus outside has certainly lost its charm. But despite the drawbacks of the architecture the centre provides a regular series of good exhibitions, that in themselves indicate the style of the Pompidou was just another passing fashion. The new Lloyds of London is by the same architect and when it is finished it will be intriguing to see whether the technological language of the early 1960s has advanced significantly.

The current Pompidou show has been conceived to demonstrate the great richness of architectural imagery created in Europe in the last 200 years. In the tradition of the mixed media, multi-disciplinary events that the Pompidou has per-

Collin Amery visits an ambitious show in Paris

fects, this exhibition makes no very strong statement. Probably the most definitive is the decision to show the works in a series of small rooms within a generally Post Modern design. It is amusing to enter the hidden parts of the centre through a mock classical entrance attached to the metalwork. The exhibition design doesn't win in the interior itself where the batteries of pipes, tubes and wires always appear to be looking over your shoulder.

One for the Road/Lyric Studio

Harold Pinter's new play at the Lyric Studio in Hammer-smith puts a spot of welcome on the London theatre scene. It is a disturbing, enthralling short play, beautifully directed by the author and boasting a performance of quite chilling ferocity by Alan Bates.

New Sadler's Wells Opera's G & S festival in London
This summer NSWO presents its first ever Gilbert and Sullivan Festival at Sadler's Wells Theatre from June 4-July 21 featuring a new production of HMS Pinafore.

the drawn reality. By stimulating the public with as catholic a range of images and media as possible he hopes to engage them in the architectural debate. He feels as do many of us, that the public has been traumatised by modern architecture—particularly by the arrogance and elitism of the professionals—and that there must be a way of establishing a new visual imagery as a way towards a new architecture.

It is a brave show and a serious attempt to crack a particularly hard nut. No one in England has dared to put on an exhibition that has such challenging content or such thought provoking material. It is probably too large a selection of images from 15 countries in Europe: from Schinkel in the early 19th century to the fantasies of Fellini in the late sixties there are too many things to say. Too many lines have been drawn and too few of them connect or lead anywhere.

There are two ways of looking at it—all sheer delight in the number and range of beautiful drawings and the infinite number of ways of looking at a work of architecture, or a solemn progress through the icons of the architectural movements of the last two centuries. It is a lesson in the seductive nature of the drawing as a purveyor of ideas. It is also a warning that there is a third dimension to it all, that we forget at our peril. Not to mention the fourth dimension—those creatures called Man—who have to live, work and have their being in the creations of these architects and artists.

It is a rich experience and worthwhile on the aesthetic and social/historical levels. What is highly debatable is whether it succeeds in building any bridges between the two to increase our understanding.

Scarfe's debut as opera designer

Cartoonist Gerald Scarfe is to make his debut as an opera designer. English National Opera has announced that Scarfe will design a new production of Offenbach's Orpheus in the Underworld which ENO will present at the London Coliseum on October 24.

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Shelagh McLeod in 'The Hitchhiker'

Young Writers/Royal Court

Keep it under your Phrygian cap, but the Young Writers Festival at the Royal Court theatre is quietly engineering a counter-revolution. The playmaking of the current double bill are articulate, painstaking and might find their true niche on radio. Moreover one displays an ambient attitude to popular concepts of progress that recalls an Ealing comedy in gentle mood.

The Hungry Ghosts/Old Red Lion

The action of C. P. Lee's short play takes place in an upstairs room of a Manchester pub. No great design skill is needed to present it in an upstairs room of the Old Red Lion, based by the Angel in London. But there is no great directing talent needed either in this very typical fringe production in which plot and drama only intrude in the last two-thirds of the action. Up until then it is the usual thing—the writer showing off his skill at amusing or pertinent one-liners about contemporary society and the state of the world.

Producers Colin Graham 'has shaped the drama's modern and archaic aspects into a fluent and colourful continuity'

Colin Graham's 1966 production of Britten's coronation opera, brightly refurbished, energetically prepared, and by Mark Elder superlatively well conducted, came back to the English National Opera on Tuesday. This is one of the works planned for the forthcoming ENO American tour; it is a canny choice, for Gloriana supplies probably the pre-eminent example of a postwar British nationalist epic, 'forged' (in Peter Evans's phrase) in 'some of the most attractive nationalist music of our time.' As such, it should add brilliantly apt finishing touches to a company picture painted otherwise with chamber-size Britten, G&S, modern-dress Verdi, and Prokofiev. (The first American Gloriana will form, indeed, the U.S. premiere.)

Wee also have Sound-Houses

Wee also have Sound-Houses, where we practise and demonstrate all Sounds, and their Generation. Wee have Harmonies which you have not, of Quarter Sounds, and lesser slides of Sounds. Diverse Instruments of Music likewise to you we have in some greater than any you have... Wee represent Small Sounds as Great Sounds; likewise Great Sounds, Extenate and Sharp; Wee make diverse Tremblings and Warblings of Sounds, which in their Original are Entire. Wee represent and imitate all Articulate Sounds and Letters, and the Voices and Notes of Beasts and Birds. Wee have certain Helps, which sett to the Ear doe further Hearing greatly. Wee also have diverse Strange and Artificial Echoes, reflecting the Voice many times, as if it were Tossing it; and some that give back the Voice Louder than it came, some Shriller, and some Deeper... Wee have also means to convey Sounds in Trunks and Pipes in strange Lines, and Distances.

Thus Sir Francis Bacon, in his New Atlantis of 1624, describing with uncanny precision the voice-mechanics of the electro-musical age, the liberation of music from the traditional rules of consonance and tonality, but also in startlingly accurate detail the equipment and work of an electro-acoustic music studio of the mid-20th century.

The Way of the World/Greenwich

Giles Havergal's production of Congreve's great comedy is a triumph to a playing time of two and three-quarter hours. This deprives us of a number of pleasant lines, but also sharpens up the plot mechanism, which in the first half of the evening can sometimes be clogged by the wit.

Max Loppert

Max Loppert
The rest of the casting is at matched strength. Anthony Rolfe Johnson's Essex is superb in impetuous passion, remorse, and tenderly poetic lyricism. Neil Howlett's Mountjoy and Jean Rigby's Lady Essex are handsome, strongly lined and sung portraits; Elizabeth Vaughan's Lady Rich is almost too mettlesome (a future Gloriana here?); Alan Opie (Cecil) and Richard Van Allan (Raleigh) bring bold definition to Britten's sketchy embodiments of statecraft and, in smaller roles, Malcolm Donnelly, Lynda Russell and

Dominic Gill reports on a festival week of electronic music

performing instruments, composers who wished to work wholly within the new medium were confined to creating their sounds in the studio and recording them on tape. In 30 years, that genre has produced some fascinating experiments, but no more than half a dozen truly original and striking compositions—and audiences are agreed that even those suffer from the peculiar disadvantage, compared with live performances, of seeming somehow frozen, immutable, delivered without human intervention. Listening in the dark to sounds from 20 loudspeakers can be for a while if the sounds are good, an exciting experience, but no one I have met pretends that it can compare to the experience of listening, even on a record. Live performers shaping with their own skill and musical instinct a living work of art.

For this reason, some of the most successful—and promising—experiments in the field have investigated ways of combining electronics with other media or with live performance. A New Macanaghten concert, for example, earlier this month at St John's Smith Square, mixed tape-music with visual images—an audio-visual collaboration between two composers, Alejandro Vinaso and Richard Attree, and the visual artist Joseph Monteverde, whose slide-show, synchronised with the music by computer, was cast by 16 projectors on three large screens. If the experiment is to be developed further, it should imagine it must turn to film or video, faster and less cumbersome than slides. But it was, technically, a brilliant tour de force; and Vinaso's Hendrix Blue is, I believe, even visually unimpaired, one of the most accomplished tape-pieces to be made anywhere in the past decade.

Sarah Walker

Sarah Walker
edition of Mirabell. David Foxe makes a prize ball out of Sir Wilful, with a mahogany brown face and drooping moustache, quick on his feet when there's a maid to be groped, but uncertain on them after. Indulgence in claret. Fainall's great blackmail act is so sternly done by Ciarán Hands that I half expected him to produce a gun.

Coliseum

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Arts Guide
Music
PARIS
Marie-Catherine Girod, piano: Chopin, Ravel (Mon), Salle Gaveau (983 2039).

Arts Guide
Music
WEST GERMANY
Frankfurt: Alte Oper: Claudio Arrau, Piano, Beethoven (Thu).

Arts Guide
Music
BRUSSELS
Cleveland Quartet: Beethoven, Shostakovich and Brahms. Beaux Arts (Wed).

Arts Guide
Music
LONDON
London Symphony Orchestra conducted by Yuri Simonov and Shura Cherkassky, piano, Tchaikovsky, Brahms (Tue), (933 8891).

# FINANCIAL TIMES

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Monday March 19 1984

## Mr Scargill's folly

THE LEADERSHIP of the National Union of Mineworkers is unlikely to change course in the immediate future: but in the interests of its members and the country, it is imperative that it does so soon.

It is now faced with calls for a national ballot from many of those areas where mineworkers have shown, by very large majorities, that they wish to work. It must concede such a ballot: if it does not, the scenes of anarchy unleashed will multiply this week.

### Deep radicalism

This cannot be what the NUM wants—not simply on humanitarian or moral grounds, but on tactical ones. The fact is that the mineworkers are balking themselves against a brick wall—not of National Coal Board and Government determination, but of the brute facts of the market and the effects of technical change, which together dictate a reduction in capacity and in the size of the workforce.

The NUM cannot "win" the strike, even if it succeeds in coercing those of its members who wish to work not to do so. But the deep radicalism of its leadership and of many of its members can be put to good use, in their own interests.

The union can continue to ensure that the wages paid to its members remain a reflection of the hazardous, strenuous and essential nature of their work in retirement are high: that the redundancy payments are generous. In this regard, it was better served by the shrewd combination of tough negotiations and public amiability displayed by Mr Joe (now Lord) Gormley than it has been by the truculence of Mr Scargill.

It can go further: it should pressure the NCB and the Government to develop the same kind of new industry schemes which the British Steel Corporation has undertaken in Corby and other areas, with surprising success. Fit villages are often largely dependent on the pit for work: the mere payment of large lump sums means a short-term bonanza for the traders in the nearest town, but

little else. A union which demanded the right to work without specifying what kind of work could get somewhere.

The union leadership must know, below its rhetoric, that the coal industry is not heading for the need for coal is accepted by all: even if electricity generation were to be progressively taken over by nuclear power (and there are doubts surrounding that) its use as a feedstock is likely to guarantee its future. For the present, the leadership lacks the flexibility and open-mindedness to consider alternatives to head-on militancy or to recognise that it may be wrong in its analysis: it may take a humiliation over the next few weeks to encourage a change.

The NCB, too, has responsibilities. As many in it will know, for most of the period since nationalisation has meant the industry has been cocooned from commercial pressures, a state of affairs in which Mr Ian MacGregor, the chairman, has made war. But he had better use the slow, patient tactics of a Fabian Conductor than the juggernaut of a Hamlet: already, in the precipitate announcement of the closure of Cortonwood in South Yorkshire, he appears to have given the miners there a real grievance.

### Right to work

The contraction of employment in an industry as old as mining is a culture as rich and honoured as it is, with the muscular toughness it engenders, is always likely to cause a deep sense of rejection which is difficult to control. Thousands of police are engaged in the coalfields attempting to guarantee the right to work. All sides must now be prepared to show as much reasonableness as they can muster if the few days are not to result in more injuries, even deaths. The NUM leaders have most to do here, but the NCB and the police have their cases to win before the bar of public opinion. Once the immediate crisis is over, union and management must resume a sensible dialogue about the future development of the industry.

## Europe's role in space ventures

AMERICA IS inviting the Europeans to join it in the next great adventure in space, the construction and launching of a manned space station to circle the earth. The proposal has been put to European Governments with characteristic American ebullience by Mr James Beggs, head of Nasa. The \$9bn (£6.2bn) project, he said, would secure western leadership in space for the 1990s and would serve international co-operation.

Mr Beggs should have been prepared for a wary reception. At a guess, the Europeans would have to spend some \$2bn on their share in a space station. Welcome though that might be, aerospace companies, nearly every European Government is scratching around for money or trying to

been carried out satisfactorily by existing unmanned satellites. Men on a space station, it has been proposed, could make experiments and ultimately carry on industrial processes which require the near-zero gravity of space. New materials could be produced and known ones processed more efficiently. The difficulty is that any such plans take us to and beyond the present limits of human knowledge.

### Information

When all the available information has been weighed there still will come a moment when a decision needs to be made whether or not to leap into the dark. That decision should not be influenced by considerations of prestige or a blind determination to keep up with the Americans. Nor should the wish be paramount to provide work for research laboratories or the aerospace industry.

It can already be shown that the early, highly risky phase of activities in space can lead into something more immediately practical. The simpler, uncrewed satellites, besides their military applications, have proved themselves in surveying the earth and as relay points for telecommunications. In that particular field international co-operation is already a fact. A number of intra-European and transatlantic alliances exist between private companies; European satellites have been started on American launchers, and the French-developed Ariane rocket is making a promising bid for similar business from American clients.

These are areas of space exploration where the money and effort invested by governments over a number of years is slowly beginning to pay off, not only for military, but also for civil purposes. At the present stage, and even if all possible precautions are taken, the costs and risks of breaking new ground are too heavy for the private sector. The glamour and excitement of space exploration, together with the technological spin-off which is claimed for it, may encourage governments to provide the necessary funds.

But the final test must be whether a new venture into space yields knowledge which, directly or indirectly, is ultimately capable of practical and profitable application.

THE 57th birthday of Sr Raul Alfonsín, Argentina's new President, passed almost unnoticed last week. Only a few faithful supporters gathered in front of Buenos Aires' Casa Rosada palace to offer their congratulations. Inside, the President sacrificed only a small slice of his working day to blow out one candle on an undersized cake.

Perhaps, as his aides insisted, it was all meant to convey the essential humility of a committed democrat—in sharp contrast to the self-importance of the generals who ruled Argentina until last December.

But another image persists: of a Government which, despite some remarkable foreign policy and human rights achievements, is no longer applauded with the bubbling enthusiasm that greeted its installation exactly 100 days ago.

The reason is economic: Argentina's politically fickle and highly materialistic "silent majority" fears a sharp drop in its standard of living as it sees the Government grappling with a chronic inflation problem at home and a mounting crisis abroad over the country's huge international debts.

The debt crisis could have far-reaching effects, both for the Argentine economy and the international banks. The immediate problem stems from the Government's refusal to renege on growing foreign exchange reserves to reduce significantly interest arrears on its \$43.6bn of international borrowings.

That could force U.S. creditor banks at the end of this month to classify some of their loans to the country as "non-performing," which would result in a cut in their declared first quarter profits. It would set an unfortunate precedent, for throughout the current Latin American debt crisis, the banks have somehow managed to keep their debts on a performing basis.

At the end of last week senior government officials insisted that they wanted an agreement on the arrears by the end of the 31 deadline, but Argentine's refusal to pay has seemed designed, in part, to exert pressure on the banks for a rescheduling of its debt on relatively generous terms.

However, as a precondition for any rescheduling, the banks want the Government to reach agreement first with the International Monetary Fund on an economic recovery programme.

An IMF team is expected in Buenos Aires this week to start with the government on the talks, for very high stakes. It is clear the Fund will demand austerity of the Alfonsín Gov-

ernment. But the key question is: how much?

A fierce programme of retrenchment could erode popular support for the Government, and create a head-on confrontation with the trades union movement, carrying with it the risk of a descent into political chaos which could destroy democracy and the prospects for debt repayments.

As it is, Sr Alfonsín is walking a political tightrope—watched closely by the military—as he tries to restore a sense of dignity and freedom to a country that has for years lived in an atmosphere of fear and corruption.

By the standards of any nascent Third World democracy, his achievements in such short time are remarkable. He has ordered the court martial of nine members of former military juntas; he has sided the one-take subject of human rights violations, with the opening of mass graves and the prosecution of those alleged to be responsible for atrocities; he has reached a peace agreement with Chile (the two countries have a long-standing and still unresolved dispute over the Beagle channel); and he has paved the way for

Argentina to be able to escape the worst ravages of a debt crisis that has engulfed the whole continent. It is self-evident in energy and a net exporter of food. Even last year at the height of its political and economic crisis, Argentina managed to notch up a trade surplus of \$3.1bn. Thanks to strong grain exports in the first quarter, this year's surplus is even higher, officials say.

That Argentina now stands to become the first major Latin American borrower to let its interest arrears run for any length of time at more than 90 days is only a foreboding bankers' sense of the unreal. Although Argentina is pay-

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Many bankers believe, however, that it could take well into the second quarter to resolve the problem. This would mean that second-quarter profits at U.S. banks would rebound as Argentine loans are first put on and then taken off the "non-performing" list.

Even so, Argentine faces difficult talks with its bank creditors from whom it hopes to win major concessions for its 1984 rescheduling package.

The banks are worried that concessions to Argentina would undermine their policy of conceding lower margins and longer maturities as a reward to countries which perform well under their IMF programmes and in servicing their debts.

Few bankers believe that Argentina will never come to terms with the IMF. But after nearly two years of frustration and confusion, some are beginning to worry that the reality Argentina presents at the end of the day will be that its finances are even less sound than Sr Griespahn, the Finance Minister, would have the world believe.

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## Alfonsín's hundred days

# Argentina: euphoria gives way to reality

Jimmy Burns in Buenos Aires on a growing economic crisis

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personality and in the relative weakness of the two institutions that have the greatest capacity to destabilise the Government: the military and the unions.

The armed forces—with the exception of an unrepresentative fringe—have reached a *quid pro quo* with the Government. The military has accepted the Government's counter-bidding of former junta members (and about a dozen other officers) in return for guarantees that there will be no full-scale witch-hunt for those responsible for human rights violations and the Falklands debacle.

The armed forces believe this is their best hope of keeping the country's military institutions more or less intact—but it does not mean the military accepts that its past actions were politically or morally wrong.

This distinction is vital. It means the bulk of military officers are still convinced they are an important factor in Argentine politics and will continue to keep a close watch on Sr Alfonsín's activities.

As for more conventional politics, the constraints on the ruling Radical Party were undermined last week when it failed to push key union reform legislation through parliament. The party lacks a majority in the upper house of the Senate.

The bill—a modified version of which is expected to come before parliament in May—is a bold attempt to break the hold exercised over the unions for the past 60 years by bosses linked to the Peronist party, now the main opposition.

The legislation proposes a system of direct union elections at branch level, with proportional representation giving a significant say to non-aligned members.

Nevertheless, Sr Alfonsín appears to have come round to accepting that some kind of historic compromise, with the current labour leadership is necessary, if his economic policies are to succeed. He has already announced that he intends to secure a "social contract" with both sides of industry to help implement a more effective price and incomes policy.

But, for the moment, Sr Alfonsín's survival will rest on his ability to convince the average Argentine that democracy may involve sacrifice as well as freedom—and that this belt-tightening could mean much more than restraint on his own words.

Public opinion polls show that Sr Alfonsín's personal standing remains high. His strength lies in the force of his

Publicly, officials dismiss the recent price increases as a temporary problem but privately they admit to a dilemma—President Alfonsín is trapped on the one hand by the expectations generated during the election campaign—when he promised a bold redistribution of income and increased social benefits—and on the other by the growing realisation that the state has been living beyond its means and needs a dose of austerity.

This is shown most clearly by the country's budget deficit. Over the past year it has risen from 3 per cent of GDP to 17 per cent, according to provisional Central Bank figures.

A similar gulf between initial expectations and harsh reality has confronted the Government in its international debt negotiations. When Sr Bernardo Grinspahn took over the Economics Ministry in December he appeared convinced that Argentina's return to democracy was sufficient to ensure the goodwill of the international financial community.

But in recent weeks the bankers' patience has been wearing very thin. The Minister's repeated assurances that "Argentina will honour all its

debt obligations" have seemed increasingly hollow alongside mounting arrears and the absence of any clear-cut debt strategy.

The news that Argentina will soon draw up an IMF letter of intent, as a prelude to a commercial debt rescheduling programme, has been greeted with relief by the banks.

However, the Government's willingness to embrace economic austerity at the behest of the IMF and banks should not be over-estimated.

There is no love lost in Argentina for the international banking community. During the years in the wilderness, the politicians repeatedly rallied against the banks for indifference to, or complicity in, the economic failures and political repression of successive military Governments.

Despite the economic strains—and provided an acceptable deal can be struck with the banks and IMF—most observers here believe that Sr Alfonsín's Government should stay on its tightrope and consolidate democratic institutions.

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## ANXIOUS BANKS PRESS FOR A FRESH IMF AGREEMENT

Argentina is now way behind other Latin American countries in coming to terms with its international debt.

While most other leading borrowers are well on the way to sorting out their financing needs for 1984, Argentina has yet to sign a rescheduling of debts falling due as long ago as 1982. Throughout that time Argentina has been chronically short of foreign exchange; yet so volatile are its domestic politics that it has not even been able to meet the conditions for drawing more than \$500m of the \$1.5bn credit arranged by creditor banks to see it through the worst days of 1983.

In this sense the latest drama does little more than confirm the impression that its problems belong more rightly to the centre of the absurd than to the annals of economic history. Nowhere else in Latin America did debt problems surface as a direct result of a war (the seizure of the Falkland Islands in 1982). Nowhere else has a central bank governor been thrown in jail for trying to renegotiate his country's debt; and nowhere else have these negotiations taken place against a backdrop of general elections in which a military dictatorship was overthrown.

Theoretically, Argentina ought also to have been able to escape the worst ravages of a debt crisis that has engulfed the whole continent. It is self-evident in energy and a net exporter of food. Even last year at the height of its political and economic crisis, Argentina managed to notch up a trade surplus of \$3.1bn. Thanks to strong grain exports in the first quarter, this year's surplus is even higher, officials say.

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Peter Montaguon

## Venice triumphs, Sherwood profits

For James Sherwood, president of Sea Containers, the shipping and container leasing company, a gamble on the good taste of the British public has paid off handsomely at the eleventh hour.

The Genius of Venice exhibition at the Royal Academy, which closed at the weekend, has finished in the black. It will make a modest profit, in fact, for the RA.

That is good news for the unsubsidised RA which is also launching a multi-million pound appeal. And it is even better news for Sea Containers which also runs the Orient Express to Venice and owns the Cipriani Hotel there.

Sherwood's group guaranteed the show against loss up to a figure of £150,000. It now looks as if he will not have to hand over any cash. And, as a reward for his risk, he has enjoyed more than £1m of excellent corporate publicity.

Mind you, it was tough and so for the Venice exhibition. Up until a month ago the RA was getting fewer than the 3,000

visitors a day it needed to break even.

Then the queue's re-appeared, perhaps coaxed in by a radio advertising campaign. Such was the late rush that the exhibition was extended by a week.

Altogether 450,000 people paid about £1m to see one of the most flamboyant art shows in decades.

But by that time even his strong civil servant's digestion must have been jibbing at the enormity of the task. The following passage will, I feel, survive in English literature long after current legislation has been forgotten. "The incidental provision of cold items, which are not separately charged for, such as a dollop of mustard, tomato sauce, or chutney, should be ignored."

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## Men and Matters

Smithers showed no mercy for fish and chips, Chinese, Indian, Greek, Italian "and similar" take-away meals, hot dogs, hamburgers, pies, toasted sandwiches, or hot drinks. AM have been taxed.

He even stretched his net to snare cups of soup and roasted chestnuts.

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FOREIGN AFFAIRS: EEC SUMMIT

Only if they act together

By Ian Davidson



Heads of Government at the last EEC summit in Athens

BARRING ACCIDENTS, there is a reasonable chance that the European Community summit which opens today in Brussels may break the back of the crisis which has been hanging over it for the past year. If it does, the detailed components of any emerging compromise are likely to look, in the cold dawn, like a tacky set of unsatisfactory compromises. But the bare fact, or the emerging prospect, of agreement may make it possible, for the first time in 30 years, for the member states to get back to the politics of European integration.

Complete agreement on all the outstanding issues is of course, virtually inconceivable. Nevertheless, the omens are reasonably favourable. The ten agriculture ministers have made a start on a reform of the common agricultural policy (CAP) with a set of fairly draconian measures designed to halt the Community's runaway dairy output. There seems to be a consensus, at least among the larger member states, that procedures must be tightened up to impose greater discipline on Community spending in future. There seems to be a reluctant demand for some durable system to limit Britain's excessive contributions to that budget. Above all, and providing nobody says anything excessively stupid, there is a growing sense of agreement that the time really has come for the heads of government to settle.

"Before the Athens summit," says a Commission official, "there was an atmosphere of pessimism. Today there is a sense of agreement fever." But then Athens was a spectacular example of how badly a meeting can go astray when everybody, but everybody, says the wrong thing in the wrong tone of voice.

Nothing guarantees that things won't go as badly astray this time, too. Since this crisis presents not only the first opportunity, but also quite possibly the last, for the government to push through long overdue reforms, Mrs Thatcher can be counted on to hang tough.

The danger is that she may misjudge how far she can push the other member states. She believes, probably sincerely, and certainly with good reason, that most of the changes being demanded by the British

government would be in the general long-term interest of the Community. But while the case for strict discipline and a diversion of resources away from the CAP are logically unanswerable, other member states may balk at Mrs Thatcher's vision of discipline, or fear they could not get it past their national parliaments. That is the danger of a crisis where the first opportunity may also be the last.

Even if the summit were to go swimmingly with all kinds of theatrical breakthroughs, the effects on the Community's finances and the balance of its policies would be likely, even over the medium-term perspective of the next five years, to be pretty meagre. If the Community is like a super-tanker, it could take about ten years to get it onto a significantly different course, unless there is a substantial expansion of its range of activities.

Take the CAP. The farm incomes have made heroic if belated efforts to slow down the juggernaut of milk over-production. But the new production ceiling has been fixed some 13m tons a year above consumption, and by the end of this year the Community expects to have accumulated a 1m-ton butter mountain. Getting rid of this surplus, and of the 500,000 tons of beef stocks, will cost fabulous sums. In other words, the farm ministers may have risked mayhem in the rural areas by starting to curb the growth of over-production; but they have done little to eliminate the over-production, which means that, for as far as the eye can see, we shall have to go on paying for large quantities that no one wants.

No sooner will the Community start to rein back the large explosion in the north of Europe, than it will have to fork out larger sums for Mediterranean agriculture. Notably, Spain and Portugal ought to join at the beginning of 1986, and sure as eggs in a basket the Community will have to spend more to ease the competitive shock for farmers in southern France, Italy and Greece, to say nothing of compensation for Morocco, Algeria, Tunisia and Israel.

All this sheds a rather grim light on the British demand that agriculture spending should get a declining share of

the Community budget. For unless there is an implicit prospect of further reductions in the quotas for surplus products, the chances must be that farm spending will continue to increase for several years at least.

If the British demand is to be satisfied, there seem to be only three options. Either there must be a faster growth in non-farm spending, which runs counter to Mr Thatcher's ideas; or there must be legally binding constraints which keep permanent pressure on the farm policy indefinitely; or else any replenishment of the Community's finances must be kept so small as to ensure that this year's crisis is repeated in two or three years' time.

What it comes down to, is that any successful deal will depend on a judicious mix of legally binding constraints, public and unambiguous political undertakings and initiatives which inspire and reinforce sentiments of trust and optimism. Any government which attempts to limit the negotiation to legal constraints designed, like a dead man's will, to circumvent the Community for ever regardless of circumstances, may doom it to failure.

The problem is that the British Government machine feels much more intensely about the injustices and

irrationalities of the past than about the opportunities of the future. Yet in fact, circumstances have seldom been so propitious for a re-launch of the European idea based on genuine feelings of trust and perceptions of common interest.

That may seem an odd thing to say in the middle of a mega-crisis which looks like all previous crises except that it is much bigger. Moreover, most previous crises have simply turned out to be preparations for a more serious crisis. But after 17 years of stagnation and wrangling, there are serious reasons for thinking that there is now a convergence of conditions which could point to a different future.

The conventional wisdom is that the stagnation has been due to conflicts of ideology or to conflicts of national interest, or both at once. As far as it goes, the conventional wisdom is not wrong. In the swinging pendulum of a technical society, progress has been hamstrung by ideological squabbles between the Gaullists and the federalists. Gaullism was attenuated under Pompidou and Giscard in the '70s, but new progress was hamstrung by the economic crisis and by the priority which each government gave to national interest. But this conventional wisdom does not go far enough.

Germany economically, but even the Germans are becoming anxiously aware that their economy may be vulnerable in the hi-tech revolution.

Behind a residual facade of Gaullism, France's political priorities have radically shifted. Not merely has Francois Mitterrand taken dramatic steps to reinforce the military-security relationship with Bonn, but he has invested more personal energy and political capital than his predecessors would ever have dreamed of doing, in his efforts to bring about a settlement of the Community crisis.

The debate over nuclear weapons and Nato strategy has certainly played a part in bringing French and German opinions closer together. But the single most important factor is anxiety over the volatility and unpredictability of American foreign policy, and over American egotism in economic policy. There was a time when transatlantic quarrels were treated as family rows—tiresome but not fundamental. Today it has become more difficult to evade the idea that volatility, unpredictability and egotism are the inevitable consequences of the American character multiplied by the U.S. political system, and that they are less and less likely to be tempered by the efforts of an internationally minded professional elite in Washington.

Such a diagnosis, in a period of East-West tension and economic stress, would demand that the European countries should take energetic steps to acquire greater leverage over their environment, economically, politically and militarily. This they can only do if they act together.

From the collapse of the European Defence Community in 1954 to the present day, the strongest glue holding the European Community together has been the commercial interest which came from trading and horse-trading. Today's summit is the culmination of its biggest-ever horse-trading struggle. Perhaps it will explode in rage. But even if it does, the new external factors forcing the Europeans closer together will still, inexorably, be there.

Lombard Decoupling from U.S. rates

By Samuel Brittan

"In contrast to virtually the whole of the post-war period, UK three-month and long-term rates are now lower than American rates. As long as American rates remain near their current level, it is highly desirable that this advantage be maintained."

Mr Nigel Lawson, UK Budget Speech, March 13.

SINCE the British Chancellor uttered these words key UK interest rates have fallen further while U.S. interest rates have continued to rise. At the long end of the market U.S. long term Treasury bonds have yielded well over 2 per cent higher than their British equivalents.

It is important to ask how long this discrepancy can continue and whether it can widen further. For there is a clear risk of U.S. interest rates moving higher, even considerably higher. The U.S. recovery is continuing to surpass expectations, while inflationary expectations are being kept in check.

Contrary to much wishful thinking the Fed is not following an interest rate policy, but an imperfectly specified targeting of monetary aggregates, with obligations to stop look and listen. If the Fed funds rate threatens to exceed sensitive points, such as 10 per cent recently, although the Fed will avoid embarrassing the President unnecessarily, the main constraint on its action is fear of the impact on developing country borrowers; and that constraint is not absolute, especially if a falling dollar is giving these countries alternative relief. Congressional action on the budget deficit is more likely to benefit long rates than short ones, if it occurs.

Fortunately, there is no rigid link between interest rates in different centres. While a positive differential of New York over London may be novel, such differentials have been common and much larger in relation to other centres with traditionally strong currencies.

The key to interest rate differentials is to be found in expected currency movements. As U.S. costs and prices are historically highly uncompetitive at present exchange rates and the U.S. is already experiencing a \$30bn per annum current account deficit, the downside

risk on the dollar is quite high. The dollar was pushed up for much of 1983 in part by the feeling that it was likely to go higher, for reasons of confidence and political stability, as well as better investment prospects in the U.S. These favourable factors are no longer so prominent. Thus the odds are that for most of the time expectations about the dollar will be sufficiently bearish to allow interest rates in the other main centres to remain substantially below New York.

But clearly the prospect cannot be guaranteed. Any number of events can occur to restore for a short or long time, the attractions of the dollar. These range from an international crisis to events in the presidential elections or in Congress, or Fed action which persuades the market that it will be able to prevent a major fresh inflation after all.

If and when such a confidence resurgence occurs, the UK, like other countries, would still be able to attempt a low interest rate policy. But the condition for so doing would be that sterling would have to fall so far that the market expected its next move to be upwards—in other words a deliberately contrived undershooting.

Unless sterling started this episode from a very high level on the weighted average, or the episode was expected to be brief, the inflationary risks of such a policy hardly need underlining. If any such painful episode is required, it will be time to remember that although there is no target for the exchange rate it is nevertheless given a role in the process of the Medium Term Financial Strategy quite as important as either of the two targeted monetary aggregates.

The exchange rate constraint will be limited but not abolished if Europe and Japan co-ordinate their interest rate policy so that their trade-weighted average of any one currency falls much less than its rate against the dollar.

There are clearly sufficient international as well as domestic uncertainties for one to hope that the Chancellor will remind the House in his winding up speech that interest rates can move in both directions, however virtuous he has been about public sector borrowing.

Offshore export possibilities

From Mr G. Mackay

Sir,—May I make three observations on your excellent article (March 9) on the offshore construction industry?

First, the offshore supplies office's (OSO) estimate that in 1983 UK industry's share of the UK sector offshore contracts was 73 per cent. As you point out, this is a gross figure. The net share of UK companies were taken into account, the UK share would fall substantially (probably to about 50 per cent). For some purposes, e.g. estimating employment creation, the 73 per cent figure is not the appropriate one to use but for others—e.g. assessing UK industry's export capabilities—it is misleading. I am concerned that too much reliance is put on the higher figure (which if it were accurate would be very encouraging) and that the government bodies concerned with the offshore industry have consequently become complacent about the need to increase UK involvement both in domestic and overseas markets.

The export possibilities for the construction industry in the form of production platforms and modules, are geographically limited. This is not generally regarded as the high technology end of the industry and most countries with offshore fields, such as China, believe that they are capable domestically of building such structures, with relatively little foreign help. Also, these items are very costly to transport and the UK has relatively high labour costs. The main export opportunities lie at the technology end of the industry.

The UK presence is generally weakest in the higher technology sectors. Much greater interest in that export market has in fact been shown by French and Norwegian firms rather than UK. Further, a large proportion of the UK firms actively pursuing the Canadian offshore market are in fact the UK subsidiaries of foreign firms.

G. Mackay, 34 Morningside Grove, Edinburgh, Scotland

Town Hall staff

From Mr R. Legge

Sir,—Further to Mr Law's comments (March 14) one must query the outcomes of the Government policy to reduce its grants to councils compared with the stated objective of this "rate capping". In my area, and in many other areas, councils have met the loss of Government finance in two ways. Rates on businesses and households have been increased by more than would otherwise have been necessary in order to make

Letters to the Editor

good part of the shortfall. Essential services and employment in them, from hospitals and schools to help for the aged and libraries have been and are being reduced. At the same time scarcely any bureaucrats in the town halls have lost their jobs although they are presiding over shrinking essential services and unnecessary expenditures continue on a large scale, ranging from the well publicised antics of the GLC to the provision of expensive sports centres and playing fields although the existing sports facilities have been shown to be grossly under utilised.

This outcome is precisely what any ordinary citizen could foresee and the supposed objective of more cost effective local government is not surprisingly as far away as ever. Cynics might observe that, in any case, the real objective was simply to reduce the public sector borrowing requirement.

R. F. Legge, 17 Fenhurst Gardens, Edgware, Middx

Pupils and peace studies

From Mr J. Johnson

Sir,—If, by following a course of "peace studies," pupils are learning to reject the British role in British soil it certainly does not follow that the teachers are necessarily incompetent or subversive.

This administration has poured considerable sums of money into producing and distributing, free of charge, vast quantities of well produced material which is clearly intended to persuade the ignorant that current nuclear-based "defence" policies are right and proper.

Unfortunately none of this material comes anywhere near explaining how nuclear missiles could ever be fired in defence of this country. Field Marshal Lord Carver is not alone in pointing out that the threat to respond in kind to a Soviet preemptive first strike on, say, Greenham Common lacks credibility. The inevitable Soviet counter-attack would utterly destroy, sooner or later, the population of these islands. Our American allies, for their part, are not going to retaliate on our behalf and thus risk a nuclear counter-attack on their own heads. Nuclear deterrence works—but not for us.

which should concern us if we value our freedom. A sinister process, more reminiscent of totalitarian regimes, is now under way in our own democracy. Civil servants of all kinds seem to be under more than usual pressure to suppress and conceal any doubts they might harbour about nuclear proliferation.

Teachers might be thought especially dangerous since some of them imagine it is part of their duty to teach people how to ask awkward questions. Since nobody can really prove that lessons are never biased the object of the current campaign against "peace studies" is clear at the outset. In practice all that sort of thing to be banned from the classroom and that will suit the campaigners very well. For, like their parents before them, children will learn to leave all that sort of thing to the experts and, like previous pre-war generations, the youngsters of today will never know what hit them.

John M. Johnson, 1 Halesden Road, Heaton Chapel, Stockport.

Oil prospects in Guatemala

From the President, Basic Resources International (Bahamas)

Sir,—We were disturbed by the article "Elf reviews prospects in Guatemala," which appeared on November 10, 1983, because we felt it gave a misleading impression of petroleum activities and prospects in Guatemala. Basic Resources International pioneered oil development in Guatemala. The following, we hope, will enable a more accurate assessment.

Petroleum engineer, H.K. van Poollen and Associates has estimated proven reserves in the contract area at 22m barrels, as opposed to the estimate of 14m reported in your article. The life span of the reservoirs is far longer than one year, contrary to the statement in your article. All reservoirs are producing; none has been exhausted.

It is not at all unusual for crude oil to contain hydrogen sulphide. The sulphur content of Guatemalan crude is low in comparison with Venezuelan and Mayan crudes. It is not true that the crude oil reservoirs, when discovered, contained 30 per cent water.

For the most part, the zones placed into production contain no water. Following the most modern conservation procedures, the fields have been injected with water at the periphery, a technique that increases the estimated recovery of the oil in place from the usual 15-20 per cent to approximately 50 per cent.

We believe the article grossly exaggerated the physical conditions and political difficulties associated with working in Guatemala. There were minor, rare attempts to interfere with the pipeline construction, but no interference with production of any significance. In our opinion, none of these incidents was political.

It is true that Elf Aquitaine, as operator, spends up to \$20m in drilling one well. This, however, is not the norm in Guatemala. Indeed, the previous operator on Block No. 1 never spent anywhere near that amount in comparable drilling, and recent estimates have been received from third parties that such wells could be drilled at less than half the expenditure by Elf Aquitaine.

John D. Park, 650 Fifth Avenue, New York 10019.

Publish and be damned

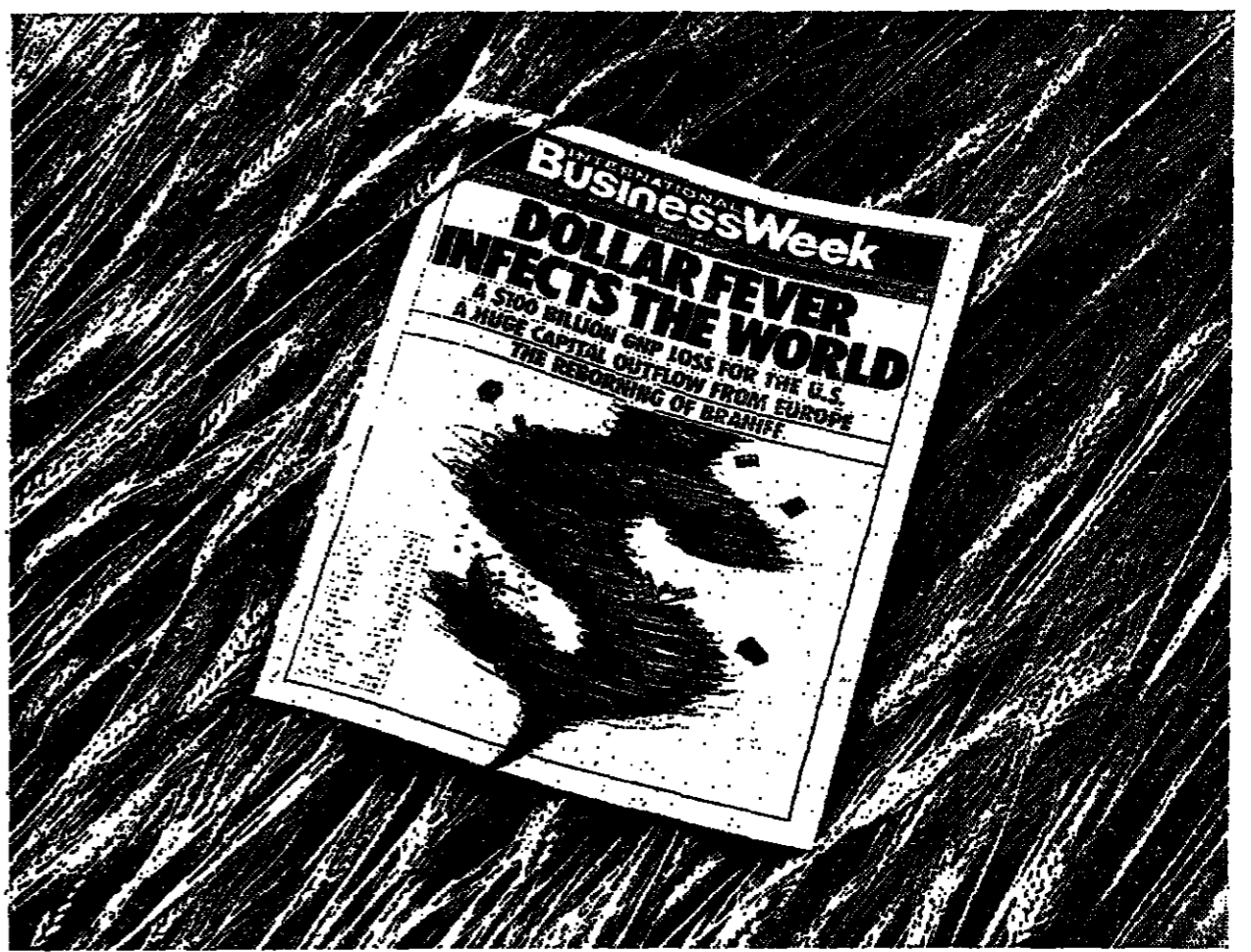
From Mr R. White

Sir,—The Inland Revenue issued a Press release on February 29 regarding the publication of a list of bodies, the subscriptions to which would qualify for tax relief. In itself a laudable project and one for which accountants have been pressing for some little time.

The Press release, however, contained a sting in the tail particularly during a year of unprecedented consultation and discussion on the shape of future tax legislation: the list referred to is to be protected by Crown Copyright and is not to be reproduced in whole or in part without permission. Similar copyright constraints have been placed on several earlier major consultative documents including those which contain a significant quantity of draft legislation.

I would welcome some clarification of Inland Revenue policy on this issue. In principle I cannot see why any material published by the Inland Revenue either for consultation, as a booklet to explain aspects of taxation or as a statement of practice, should be subject to copyright provisions. I would have thought the widest dissemination of all this material is to be welcomed and no restriction on reproduction can be justified.

Roger White, 1, Puddle Dock, Blackfriars, EC4.



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Terry Byland on Wall Street

## Time ripe to ring in new era

THE U.S. telecommunications industry was unfortunate in timing its current upheaval to coincide with the most severe post-war shakeout on Wall Street.

The break-up of the Bell Telephone system, together with the sudden acceleration in computer-based telecommunications technology, opened the way to dramatic opportunities.

But just as the 1982-83 bull market was led forward by the new high-technology based stocks, so the sudden downturn in prices this year has seen some same issues taking the brunt of the punishment.

In the case of the telecommunications groups, the setback may have been overdue, according to Wall Street analysts. Taken as a group, the telecommunications leaders have lagged the Standard & Poor's 400 stock index since October, with the gap widening since Christmas when the industrial stock market began to fall in earnest.

The sector was depressed before the rest of the market because of its own particular clutch of uncertainties. These comprised chiefly the possibility of action by Congress to regulate the industry - and therefore inhibit the opportunities for newcomers to seize the initiative in new technical developments - and prolonged uncertainties over the stance of the Federal Communications Commission (FCC) on charges for access to the national telephone network.

But now, with the proposed legislation recently defeated in Congress and the FCC's stance clarified, telecommunications stocks could be poised for recovery.

The settlement of the turmoil over access charges is beneficial for MCI Communications, which has performed erratically in the stock market since plunging last August when the FCC's first written opinion differed from its comments at the public hearing.

The doubts over access charges also caused a slowdown in commercial customer contracts with MCI because of hints that AT&T was considering a 10 per cent price cut for long-distance calls. Alarmed also by a sudden jump in MCI's costs for leased AT&T lines, Wall Street hurriedly downgraded its profit forecasts to around 83 cents a share for 1984.

But this should not mask the revenue flow likely to accrue as the beginning of equal access to telephone networks swells MCI's list of customers.

Mr Harry Rosenthal, who monitors telecommunications stocks at Bear, Stearns, says that if 25m of the 183m U.S. telephone subscribers are offered a choice of vendors of long distance telephones this year, then MCI would need to win only 2 per cent of them to increase its customers by one third, and swamp its facilities. He believes that MCI is now a 25 per cent earnings growth company.

The greatest beneficiary from the shake-up in the U.S. telephone industry is Northern Telecom, the Canadian equipment manufacturer which sells less than one third of its output in its home country. U.S. revenues jumped by more than one quarter last year, boosted by the conversion in North America from analog to digital switches in the industry.

But Northern Telecom's stock ran ahead of the market towards the end of last year and has suffered, perhaps too severely, in the 1984 shakeout.

With strong existing contracts with the Bell companies and an order backlog of \$1.5bn at the end of last year, further earnings progress is likely. Wall Street forecasts for 1985 range to an increase in earnings of around 25 per cent.

The dismantling of the Bell network has thrust the new Bell Operating Companies (BOCs) into unfamiliar areas, presenting opportunities to the equipment suppliers. Anixter Bros, which warehouses and distributes the 10,000 different types and sizes of cables on which the telephone industry depends, moved quickly this year to become the first non-affiliated distributor of Western Electric, the former manufacturing arm of the old AT&T group.

Anixter followed this up by arranging a joint venture with Cincinnati Bell which enables Anixter to master the inventory system of the Bell system. With the BOCs unprepared to handle the appallingly complicated inventory management which Western Electric will no longer supply, Anixter looks set for profitable growth.

There have been signs in the stock market that the technology sector is girding itself to lead a general recovery. It may be that investors should eschew some of the more futuristic technology stocks in favour of the bread and butter stocks. Telephones are unlikely to go out of fashion as quickly as video games.

## France's trade deficit widens to FFr 4.6bn

BY DAVID HOUSEGO IN PARIS

FRANCE'S difficulty in achieving a lasting turnaround in its external account has emerged again with the disclosure of another bad trade deficit in February of FFr 4.6bn (\$69m) on a seasonally adjusted basis.

This brings the accumulated deficit for the first two months of the year to FFr 10.2bn against FFr 43.4bn for the whole of 1983 and an official target this year of bringing the trade account into balance as a result of the Government's austerity policies.

The Government blamed the shortfall on an unexpectedly sharp rise in gas imports (up 25 per cent on January), rising imports of pet-rol products (up 10.5 per cent on the previous month) and a slowdown in food exports. But after the decline in the deficit to a monthly average

of FFr 1bn in the final quarter of last year, the acceleration in January and February to a monthly average of FFr 5bn marks a serious reversal of last year's improving trend.

The disappointing trade figures come on the heels of other February statistics politically damaging to the Government. Unemployment in February, also on the basis of statistics released over the weekend, rose 8.8 per cent on a 12 month basis to a new seasonally adjusted record of 2.19m.

Reflecting the growing number of redundancies in industry, the new rise in the number of jobless means that the Government has effectively abandoned its election pledge of holding unemployment below the 2m mark.

On the basis of the 12-month figures, the increase in the level of unemployment has been rising over the last four months from an annual rate of 2.5 per cent in November to 4.5 per cent in December, 5.8 per cent in January and now 8.8 per cent in February. This follows a period in October and September when the rate of increase in unemployment was still falling compared with the 20 per cent annual rate that the Government inherited on coming to power.

The other bad February figure was a 0.7 per cent increase in the month-on-month consumer prices index. This brings the accumulated increase for the first two months to 1.4 per cent compared with an official objective for the year of bringing the increase in inflation to under 5 per cent.

## Warner to buy back Murdoch stake with aid from Chris-Craft

BY WILLIAM HALL IN NEW YORK

CHRIS-CRAFT Industries, the New York-based television and industrial products company, could boost its stake in Warner Communications, the troubled U.S. entertainment group, to 29 per cent.

This follows the defeat of Mr Rupert Murdoch, the Australian publishing magnate, who had been trying to win control of Warner.

Chris-Craft, which stepped in to help Warner defeat Mr Murdoch last December, announced over the weekend that it was underwriting a \$72m Warner rights issue of convertible preferred stock which will be used, along with extra bank borrowings, to repurchase the 5.57m Warner shares held by Mr Murdoch's News International.

Mr Murdoch's decision this weekend to accept Warner's \$31 per share offer for News International's 8.5 per cent stake in Warner, will net his group a profit of more than \$40m on its shares plus an additional \$8m for its expenses.

In return, News International has agreed to drop all litigation against Warner, and not to buy shares or try to influence management in either Warner or Chris-Craft for the next 10 years.

The move is a setback for News International's U.S. expansion plans. Mr Murdoch, chief executive of News Corporation, News International's parent, said he was "disappointed" that Chris-Craft had been unwilling to sell its 23 per cent stake in Warner to News International.

"We would have much preferred to be a buyer rather than a seller. At the time we purchased the shares we made what we hoped would be a long-term investment. That investment subsequently became the focus of extensive litigation. Because we saw no expeditious resolution to the conflict, we believe it is in the best interests of the News Corporation's shareholders

to invest the company's resources in a more productive manner," Mr Murdoch said.

Mr Steven Ross, Warner's chairman, welcomed the settlement which, he said, would end "the costly disruption" of Warner's business.

The group, which lost \$417.8m on revenues of \$3.4bn in 1983 primarily because of problems at its Atari home computer and video games unit, will probably have to borrow an extra \$100m to buy back the News International stake.

Chris-Craft said yesterday that its majority-owned subsidiary, BHC, had agreed to take up its share of Warner's 7 per cent convertible preferred stock issue and would also purchase any stock not subscribed by the rest of Warner's shareholders.

Following the issue, Chris-Craft and its subsidiaries will possess between 24.7 per cent and 29 per cent of Warner.

## Genscher plans to visit Moscow

BY JAMES BUCHAN IN BONN

HERR Hans-Dietrich Genscher, the West German Foreign Minister, will visit Moscow in May for talks with Mr Andrei Gromyko, his Soviet counterpart.

The Bonn Foreign Ministry, which received the invitation from Moscow last week, is modestly hopeful that the Soviet leadership is seeking to re-establish contacts with Western Europe after the sound and fury that followed the deployment of nuclear missiles in West Germany, Italy and the UK last autumn.

The invitations to officials of the three most important deployment countries can just as easily be seen as a continuation of Soviet efforts

to divide Western Europe from its main ally.

But diplomats hope that Bonn and its allies can use an evident Soviet readiness to keep up a dialogue with Western Europe to shift the immediate focus away from the missiles.

They are encouraged in this not only by the surprisingly unpolemical Gromyko-Genscher meeting in Vienna, which immediately preceded deployment, but also by Soviet participation in the European security conference in Stockholm and the talks on troop reductions in Europe which re-opened last week.

He added that it was "a sad day for nationalism when murder is described as a political offence."

Similarly, Sir Michael Havers, Britain's Attorney-General, yesterday spoke of his "great sense of relief" at the extradition. In a radio interview Sir Michael said he was very pleased at the speed of the court's action.

The decision has, however, led to some disquiet within the opposition Fianna Fail party in Dublin, with calls for a long-term consideration of its effects.

He said that decisions to do so must be based on police judgement of how many pickets it was reasonable to allow through to the pits.

Calls for a national ballot have now come from Nottinghamshire, Lancashire, the Midlands, Durham, North Wales, the white collar and several craftsmen's sections.

Mr Scargill and his senior colleagues have taken some heart from the voting figures in areas such as Lancashire, North Derbyshire and Northumberland which, while falling short of the 55 per cent needed for strike action, do show a higher number in favour than in the past two ballots.

He might decide to call for a referendum special delegate conference, the mechanism which imposed an overtime ban in December which began the present spate of industrial action.

This would have the advantage to the union leadership of giving it more time to launch a strong campaign for united action, and possibly then hold a national ballot when it judged a strike vote more certain.

The National Coal Board (NCB) will today press its action for contempt in the High Court against the Yorkshire NUM. It will claim that the area defied two injunctions granted to it last week by not calling off picketing by its members.

## McGlinchey extradition welcomed in London and Dublin

By Our Political and Foreign Staff

THE EXTRADITION of the weekend of Mr Dominic McGlinchey, the alleged leader of the Irish National Liberation Army, from the Irish Republic to Northern Ireland was yesterday welcomed by ministers of the Dublin and London Governments.

This is the first extradition for security charges, as opposed to ordinary criminal offences, and follows Mr McGlinchey's arrest on Saturday, near Shannon Airport.

Mr McGlinchey, who was yesterday questioned by the Royal Ulster Constabulary, has been hunted in connection with the killing of a postmistress during a robbery.

He has also claimed involvement in a wide range of terrorist incidents on both sides of the border.

The move will help to reinforce the recent marked improvement in relations between Dublin and London, especially ahead of the report due next month from the New Ireland Forum, the Dublin-sponsored body which has been examining new political options.

The weekend's events should also strengthen the hand of Mr James Prior, Britain's Northern Ireland Secretary, against Conservative parliamentary critics of his security policy, although it will not alter U.K. Protestant criticisms of the Forum.

The extradition came immediately after a hastily summoned meeting of the Supreme Court in Dublin, which ruled in favour of implementing its 1982 judgment which in practice ended any distinction between "political" and other offences in many extradition cases.

Previously, lawyers had argued that offences were political in character and that under international law suspects could not be extradited to another jurisdiction.

The court's decision represents one of the most important advances in security co-operation since the enactment in the Republic of the Criminal Jurisdiction Act in 1978 which allows cross-border trials.

Mr Garret Fitzgerald, the Irish Prime Minister, commented yesterday that the Supreme Court had decided that some offences were so grave that they could not be regarded as political.

He added that it was "a sad day for nationalism when murder is described as a political offence."

Similarly, Sir Michael Havers, Britain's Attorney-General, yesterday spoke of his "great sense of relief" at the extradition. In a radio interview Sir Michael said he was very pleased at the speed of the court's action.

## UK miners resist calls for ballot

Continued from Page 1

who wished to work would be able to do so.

Sir Michael Havers, the Attorney-General, said yesterday that the police would be "doing no more than trying to maintain the law" by turning back coaches and cars full of pickets - even before they had begun their journeys.

He said that decisions to do so must be based on police judgement of how many pickets it was reasonable to allow through to the pits.

Calls for a national ballot have now come from Nottinghamshire, Lancashire, the Midlands, Durham, North Wales, the white collar and several craftsmen's sections.

Mr Scargill and his senior colleagues have taken some heart from the voting figures in areas such as Lancashire, North Derbyshire and Northumberland which, while falling short of the 55 per cent needed for strike action, do show a higher number in favour than in the past two ballots.

He might decide to call for a referendum special delegate conference, the mechanism which imposed an overtime ban in December which began the present spate of industrial action.

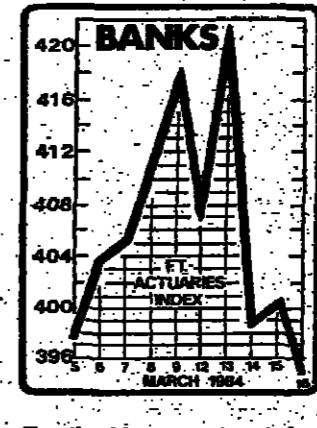
This would have the advantage to the union leadership of giving it more time to launch a strong campaign for united action, and possibly then hold a national ballot when it judged a strike vote more certain.

## THE LEX COLUMN Tax trauma for UK clearing banks

Purveyors of hot eel pies and fresh, roasted chestnuts could be forgiven some confusion last week over Britain's new value added tax ruling on hot take-away food; but budget queries in this department were settled by the men from the ministry in pretty short order. The precise impact of the changes in capital allowances, by contrast, could take a little longer to resolve.

Their impact on the leasing industry will be fundamental. Despite some supposed relief over the non-appearance of a financial services tax, the clearing banks' shares have plummeted as a consequence. The City of London has seen a cottage industry spring up devoted entirely to quantifying the damage inflicted on the clearers' accounts.

Schroders did nothing to dispense the fog of the day after the budget by touching its cap to Mr Lawson and reporting profits blessed with CB&I post-budget windfall from its UK leasing subsidiaries. In short, the tax benefits of leasing have been enjoyed in a variety of ways. But for the clearers these benefits have for some years been a ride on the tiger's back.



Exactly this prospect now faces the clearers. And it has hit their shares like another crunching round of bad debts because, unlike Schroders, the clearers have never provided anything like a full deferred tax provision against the possibility of a rainy year.

This is not to say that the changes now imposed on the leasing industry by the budget look set to materialise overnight. Dozens of major capital purchases seem to have been signed up within nine hours of Mr Nigel Lawson's speech on Tuesday. But the haste was probably unwarranted. This year's 75 per cent first year allowance can apparently be taken together with the new 25 per cent declining balance allowance and the corporate tax rate reductions. This all adds up to something of a bonanza year for leasing until March 1985, post-tax returns to the lessor - assuming unchanged leasing rates - could actually be higher this year than before the budget.

In the event, lease rates in many cases have already fallen significantly, not least as a consequence presumably of the clearers' understandable desire to squeeze as much volume as possible out of the market while it remains viable.

When first year capital allowances disappear altogether in 1986, however, the clearers will almost certainly have to confront their fitter.

Since 1981, they have all kept deferred tax provisions on this score roughly equivalent to a quarter of their potential tax liability. The remaining uncovered 75 per cent represents, on best estimates, about £2.4bn.

The impact of the higher taxes on the banks' cash flow over the next several years will vary from clearer to clearer depending on their portfolio income streams, but for accuracy's sake, all of them will surely need to set aside an adequate deferred tax provision this year. Fortunately for them, the £2.4bn netting or allows for residual new leasing business still left to them nor takes account of the falling corporate tax rate.

If the clearers plump for a provision equal to 60 per cent of the full liability and assume a 40 per cent rate, then their aggregate bill as calculated by stockbrokers Rowe and Pitman will be roughly £750m. If they go for a 100 per cent provision on the basis of a 35 per cent rate, this year's topping up will cost them at least £170m, enough, were it to be taken as a current tax charge, to push 80 per cent of them into substantial net losses for 1984.

### Common approach

This should keep the bankers, their auditors and half the accounting standards establishment busy for a weekend or two before December - providing, it must be hoped, a common approach. SSAP 15, the accounting standard which is largely the basis of the present 75 per cent provisions, could be used to justify a current tax treatment. The clearers, though, could equally reasonably argue that neither the resulting distortions to their earnings per share records nor any old-fashioned adjustments to reserves would be half as sensible as a series of straightforward extraordinary debits.

The second course might at least have the merit of squaring best with the reaction of the stock market where attention will anyway be focused less on this year's debacle than on the damage to the banks' balance sheets and the implied constraints on future earnings growth.

No doubt the Bank of England's post-budget homework gave some thought to the more accommodative stance on free capital ratios which may well be required if it is the £12bn provision is adopted. Capital bases will shrink very roughly by £22m at Midland, £460m at Barclays, £340m at Lloyds and £400m at other more at National Westminster. This will leave all four capital ratios unacceptably close to the Bank's 4 per cent limit - and could prompt closer scrutiny of Midland's £20m dividend.

Perhaps the one crumb of comfort for the clearers is that their vital equity to assets ratios at the U.S. Federal Reserve have been struck already. At least in the U.S. their ratios might seem a storm in the accountants' teacup.

## British payments key to EEC summit

Continued from Page 1

These elements all concur with the preferred British approach, which goes on, however, to seek a system limiting payments on the basis of gross domestic product. Moreover, while Mrs Thatcher will want to start by agreeing a figure for what Britain's payments should be after EEC enlargement - she suggested 400-500m European currency units (\$345m-430m) at the abortive Athens summit - other governments want to start with an agreement on the size of any cut in British payments.

During recent foreign ministers' talks last week cuts offered by other governments ranged from Ecu 700m to Ecu 1bn. If Mrs Thatcher is required to negotiate on this basis she may well argue for a Ecu 1.5bn reduction while being ready to settle for Ecu 1.2bn. The lower figure would have left the UK paying about Ecu 700m last year.

Agreement seems closer on the other main budgetary issue of how to control EEC spending. France's suggestion that governments should set annual targets for overall spending growth is generally regarded as promising.

The UK seems confident of finding a formula for keeping the annual rise in farm spending below the annual increase brought about by inflation and economic growth in the EEC's available budget revenues. In time this would cut farming's 66 per cent share of the budget.

Despite the broad success of last week's negotiations on farm prices and reform other prime ministers will also form minorities in pleading for special arrangements.

Dr Garret Fitzgerald, the Irish Prime Minister, has the hardest task in trying to win exemption from the system of milk production

quotas agreed last week. Ireland wants to expand its dairy output - said to be worth 8 per cent of GDP - by more than 2m tonnes in the next five years. Britain and other governments, by contrast, only want to concede a small reduction in the 600,000 tonnes cut in Irish dairy production which the quota system would impose.

Peter Riddell in London adds: Sir Geoffrey Howe, the Foreign Secretary, yesterday tried to reinforce Britain's "positive" attitude to the summit by repeatedly referring during a television interview to the widespread recognition in the EEC of the need to put different systems in place.

He described existing French proposals for a partial rebate of Britain's EEC contributions as "unacceptable" and stressed that the issue of the refund for 1983 rested on a firm agreement

## World Weather

Place	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud
Alexandria	13	5	55	London	7	45	Moscow	5	61
Amman	16	11	55	Lyons	8	48	Munich	5	61
Amsterdam	15	15	55	Madrid	15	45	Nairobi	17	67
Ankara	15	58	55	Manila	26	45	Rangoon	28	67
Antwerp	15	15	55	Mexico	22	45	Singapore	27	67
Athens	15	58	55	Montreal	12	54	Sydney	28	79
Bahia	23	73	55	Osaka	18	60	Taipei	28	79
Bangkok	27	83	55	Paris	12	54	Tokyo	18	64
Bombay	27	83	55	Perth	15	54	Wellington	18	64
Buenos Aires	13	55	55	Porto	15	54	Yokohama	18	64
Burkina Faso	11	51	55	Reykjavik	5	45	Zurich	11	57
Calcutta	27	83	55	Rio de Janeiro	24	67			
Cairo	17	57	55	Sao Paulo	24	67			
Canton	17	57	55	Seoul	14	57			
Cebu	27	83	55	Stockholm	14	57			
Chongqing	13	55	55	Tientsin	14	57			
Colombo	27	83	55	Urumchi	14	57			
Dakar	27	83	55	Vladivostok	14	57			
Dahomey	27	83	55	Yokohama	18	64			
Dar es Salaam	27	83	55	Zurich	11	57			
Delhi	27	83	55						

## Peru 'to start repaying loans'

Continued from Page 1

any new money from commercial bank creditors this year.

Its balance of payments deficit fell by nearly half last year to \$882m from \$1.5bn in 1982. By next year it should have fallen further to \$765m.

Response to Peru's new \$2.6bn rescheduling package has also been generally favourable. Commending the package to bankers in London, Mr Jensen forecast that Peru's economy would grow by 4 per cent this year. He disclosed that last year, however, output fell by 12 per cent in real terms - a worse performance than was expected.

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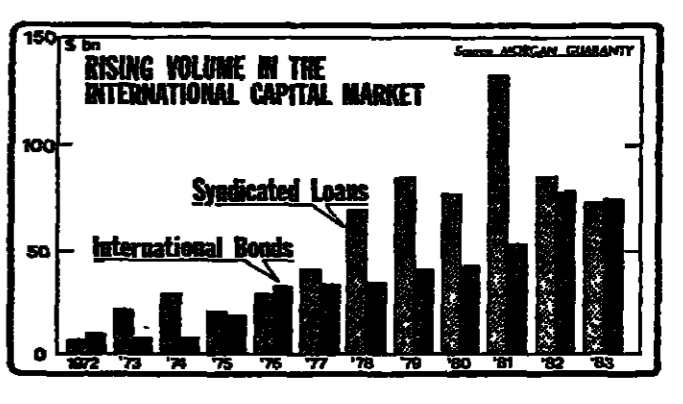
الجزء الثالث

# SECTION III FINANCIAL TIMES SURVEY

Monday March 19, 1984

## International Capital Markets

The shift of emphasis apparent in 1982 continued last year, with bond issues again easily outdistancing syndicated loans in volume. Bankers are responding to the changed environment with some radical innovations



### Profound changes in structure

BY PETER MONTAGNON

THE COMBINATION of high interest rates and the developing country debt crisis has left a seemingly indestructible mark on the international capital markets over the past year.

After two years of great uncertainty the whole structure of the markets is undergoing profound change. Last year new issue business in the international bond markets again ran at exceptionally high levels, reaching more than \$75bn, or double its level six years ago. At the same time volume in the syndicated loan market slumped. At \$73.5bn it was \$10bn below the level of 1982 and \$50bn less than its peak in 1981.

It is hard to escape the conclusion from these figures that the securities market, which was long the junior in terms of volume, has now emerged as a more powerful force in the international capital markets than the syndicated credit market.

Certainly the early months of 1984 have produced an extension of last year's trend. Dynamic new-issue activity in the international bond markets has contrasted starkly with a general stagnation of Euro-credit business apart from some highly exceptional jumbo loans for oil companies contemplating takeovers.

Indeed, bankers in the syndicated loan market complain gloomily nowadays that the bond

market is stealing their business. Borrowers which used to raise much of their money in the credit market have switched increasingly to the Floating Rate Note, a bond issue whose rate of interest changes regularly in line with that prevailing in the short-term money market.

According to the U.S. investment bank Salomon Brothers issuance of Floating Rate Notes climbed to nearly \$14bn last year from just over \$11bn in 1982 and only \$7bn in 1981. From the borrowers' point of view such a trend is hardly surprising. Floating Rate Notes carry lower interest margins than bank credits; they can be arranged for longer maturities; and there is no risk that an upheaval in the international money markets could cause lenders to withdraw from the operation prematurely.

**Satisfying clients**

What is perhaps more surprising is that lenders which include many large international banks should be prepared to forego some of the high returns available in the Eurocredit market for the sake of satisfying their clients' demand for Floating Rate Note finance. One frequently cited justification is that the debt crisis has shown that borrowings in the bond market escape

rescheduling. Most of the afflicted countries have managed to service their international bond borrowings long after they had given up on their commercial bank debt.

Yet there is an even more fundamental force at play. Faced with a need to reschedule billions of dollars in developing country debt banks are experiencing a reaction of distaste for cumbersome long-term credit commitments from which they can extricate themselves only with great difficulty. There is a premium to be paid for marketability.

What is important is that a bank which buys a floating rate note knows that it can also be sold, restoring some of the flexibility to its balance sheet that was taken away by the debt crisis in Latin America. That the returns on Floating Rate Notes are low seems to matter little. Most borrowers in the Floating Rate Note market are top quality credit risks and banks need such business to offset the high-yielding, high-risk Latin American loans that are now stuck on their balance sheets.

This is not to say that banks are the sole force behind the blossoming Floating Rate Note market. Its growth also owes much to the new found appetite among U.S. savings and loan institutions which need money market related investments to match the high-yielding accounts they are now allowed to offer their depositors. These institutions have become a new source of funds for the capital markets, lending for the first time through the Floating Rate Note market to countries such as Sweden. But commercial banks have played an important role and for the long term development of the capital markets the concept of marketable debt that has entered their

thinking through the Floating Rate Note market is of crucial importance.

It has spread from the Floating Rate Note market into the Eurocredit sector itself where loans are increasingly traded among banks. This secondary market is still imperfect, but it is one way for a bank to improve its balance sheet liquidity and earn extra profits.

Imagine, for example, that a bank has an eight year credit to a European borrower on its books which bears interest at a margin of 7 per cent over Eurodollar rates. By parking the credit with another bank for a year at a margin of, say, 1 per cent and using the space on its balance sheet to make another loan to the same borrower it is increasing its overall yield without affecting its gearing ratio.

**Potentially damaging**

Trading of debt also extends to rescheduled loans, though here banks are more wary because such business is only possible at a discount with potentially damaging write-down implications for a bank's entire loan portfolio to a given customer.

Turnover figures for secondary market trading of bank credits are impossible to calculate. Most bankers reckon that only a tiny fraction of total outstanding loans have actually changed hands. More important has been that the development of the secondary market over the past year has had a profound effect on business attitudes.

Faced with a shortage of "plain vanilla" jumbo loans, banks are now keen to use what business they do have to make extra returns out of fees and trading. In the process participants are becoming more

like investment bankers and less involved with straight commercial lending.

It is not just that the new concept of marketability has changed the face of the syndicated loan market. Other factors such as currency movements have come into play. The old jumbo syndicated loan seems to have been replaced with a smaller more special operation designed to tap a regional or specific currency market just at the moment when funds are available. In recent months currency diversification has become a new vogue in the bank credit market resulting in credits such as £500m for Sweden, ECU 450m for Italy's oil conglomerate ENI, C\$150m for Malaysia and SFr 150m for Spain.

Part of the impetus for this is obviously a perception among borrowers that they need to rely less heavily on the dollar as a borrowing medium. Indeed the soaring U.S. currency and high real interest rates have led most borrowers to look carefully at their cost of funds.

Some such as Sweden, Denmark and Electricité de France have launched large Floating Rate Notes to prepay more expensive commercial bank debt, but there is also an active market in debt swaps reaching across currencies as well as fixed and floating interest sectors of the capital markets.

By swapping floating rate debt for fixed interest obligations incurred by another borrower, even second line credit risks can obtain fixed rate funds more cheaply than by borrowing directly in fixed rate markets. To do so, however, they need the floating rate debt in the first place and that has to be provided by commercial banks in the full awareness of the debt swap potential.

It all adds up to a capital market in which the two main

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In the short run capital markets are still beset with great uncertainty. Many of the fundamental aspects of the developing country debt crisis remain unresolved. The dollar, which was riding high on exchange markets throughout 1983, has now begun to weaken in the face of the growing U.S. current account balance of payments deficit. Fears are growing that interest rates in U.S. may start to rise again as the recovery continues while Federal deficit remains at record levels.

On the political front prospects seem to be increasing that the U.S. may decide to scrap interest withholding tax. At a stroke this would undermine the justification for a separate bond market for U.S. borrowers in Europe, while many bankers believe that the Floating Rate Note market may have overreached itself.

Experiments such as a 40-year issue for Sweden or the \$250m issue for the World Bank that was priced at a small margin over the U.S. Treasury Bill rate rather than the higher Eurodollar deposit rate may simply be more than the market can bear.

At most, however, this could lead to a slowdown in the new Floating Rate Note issue level that was set in the first two months of the year. Few bankers believe that the market will wither totally as quickly as it blossomed, though it might run through a more difficult patch if, contrary to expectations, interest rates did turn decisively lower. And even if margins on Floating Rate Notes do rebound from their lowest point, they would still have to rise a long way to catch up with the Eurocredit market.

That means that bankers in the credit market cannot reasonably expect easily to recover the business they have now lost

to the bond market.

Moreover, the pattern of world balance of payments is now such that most imbalances are narrowing, with the exception of the growing U.S. deficit and Japanese surplus.

Not only are the developing countries running a much reduced deficit, so are the smaller industrial countries which have provided the capital markets with much business in the past. Among the group of 10 richest countries, France, Italy, Sweden and Belgium are also among those which have cut their borrowing needs from the capital markets by improving their balance of payments.

**Debt reduction**

Not has the economic recovery produced much in the way of additional corporate demand for finance. Several years of high real interest rates have made corporate treasurers wary of incurring new debt. Indeed many have used the increased cash flow resulting from a better business climate and the buoyancy of world stock markets last year to reduce their relative indebtedness.

From both the perspective of sovereign finance and corporate lending the fundamentals do not therefore seem to speak in favour of much incremental growth in capital market business—unless, that is, banks and investment houses can find new ways of helping borrowers to reduce their financing costs on their existing debt and improving its maturity profile. It is a climate that calls for more inventiveness and innovation from both the bond and credit markets.

In short the capital markets of 1984 require bankers to live much more on their wits than on their assets.

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INTERNATIONAL CAPITAL MARKETS II

# Expansion slow despite U.S. recovery

World economy  
MAX WILKINSON

IT MAY be true that what is good for General Motors is good for the U.S. but it is by no means so obvious whether the general benefit extends to Nissan, Volkswagen or Jaguar Cars.

Last year General Motors produced better results than most people dreamed possible in the dark days of the recession. The performance of the U.S. economy itself consistently outpaced expectations during 1983. GM, along with the major part of the U.S. corporate sector, has breathed through the obstacles of high real interest rates and the trading disadvantages of the high dollar.

But so far the improved fortunes of the U.S. economy have had only a weak effect on demand in most of the rest of the world's developed economies. Only the UK and Japan managed growth rates of as much as 3 per cent, while the average growth for the European continent was bogged down at 1 per cent.

This continued sluggishness, compared with U.S. growth of over 7 per cent at an annual rate in the second half of 1983, has been widely blamed on the persistence of high U.S. interest rates and the soaring dollar. Both are a consequence of the fiscal expansion which produced recovery of demand in the U.S.

At least until the early part of last year the general wisdom seemed to be that European governments were stretched on the rack of high interest rates because they dared not risk the inflationary consequences of a slide in their currencies against the dollar. If they let their domestic interest fall vis-à-vis U.S. rates, it was felt that exchange rates could suffer.

This idea appeared to be reinforced by the dire troubles of the French franc in 1981 and 1982 and the sudden sharp slide of sterling from November 1982 through into the early spring of last year. In both countries interest rates were raised at different times to defend the currencies. In the UK, moreover, there was still in the memory of the autumn of



Mr. Donald Regan, U.S. Treasury Secretary, need to reduce budget deficit after the Presidential elections



Mr. Nigel Lawson, UK Chancellor, pursuing a course of strict fiscal and budgetary rectitude

1981, when the authorities pushed up bank base lending rates by 4 percentage points in two stages, mainly to defend sterling and to prevent a resurgence of inflation.

By last autumn, however, there seemed to be a more relaxed general view of the relationship between domestic European policies, U.S. interest rates and the dollar. A quiet policy of "delinking" had been pursued in West Germany, the UK and other countries, where domestic interest rates were edged downwards without catastrophic consequences for exchange rates. Although the dollar continued strong, the feeling in the markets and among the authorities seemed to have changed, in two related ways.

### Competitive edge

First, there was a perception, articulated by the Organisation for Economic Co-operation and Development (OECD) in Paris (and by U.S. officials) that a high dollar was not necessarily bad for the rest of the world.

It gave other countries' manufacturers a competitive edge in U.S. markets and in third countries where they were competing against American companies. It was also realised that the rise in the dollar was related to the weakness of oil prices and of other commodities priced in dollars to a greater extent than had sometimes been thought. The dollar was therefore exonerated from some of the blame for putting up the import bills for oil and other commodities in terms of other currencies.

If the dollar had not risen, it was argued, oil and other prices would have been higher in dollar terms, so that oil would not necessarily have been much cheaper in terms of other world currencies.

Secondly, sentiment in the foreign exchange markets seemed to be coming more alive to the "fundamental" considerations affecting the value of currencies rather than the relative movements of interest rates. For the dollar this meant that attention was more sharply focused on the rapidly growing current account deficit on the balance of payment, which is likely to approach \$100bn this year.

This underlay the almost universal conviction among European central bankers and in U.S. official circles that the dollar would have to fall "sooner rather than later" in 1984, and possibly quite steeply.

But a fall in the dollar will not be an unmitigated blessing for the rest of the world. It will increase the competitiveness of U.S. industries, perhaps just at the time when domestic demand for their products is starting to tail off. It will also increase inflationary pressures in the U.S. at a time when the combined effects of a rapid recovery and a huge federal budget deficit may already be causing some acceleration of prices.

Against this, the burden of debt repayments by Third World countries, much of it denominated in dollars, will be substantially eased. But it may be premature for the richer nations to heave a sigh of relief.

The indebted countries and

their creditors must remain anxious about the level of U.S. interest rates for as long as U.S. budget deficits remain at around \$200bn a year. On present projections there is no prospect of deficits falling from this level, even if economic recovery continues at a steady rate. Mr Donald Regan, the U.S. Treasury Secretary, has made some general remarks about the need to reduce the deficit after the November Presidential election is out of the way. However, it remains to be seen whether the administration will have the stomach for the necessary fights with spending lobbies, even assuming that President Ronald Reagan is re-elected.

In any case, as the OECD has pointed out, there is bound to be a substantial time lag before actual deficits are reduced, even if the task is put in hand immediately after the Presidential election.

For the next two years at least, therefore, it seems that U.S. interest rates will need to remain high to attract domestic savings and foreign capital into Government debt funding. And a weakening of the dollar may push up U.S. interest rates. This is because a falling dollar will make U.S. Government bonds less attractive to overseas investors. For the time being, however, a large capital inflow is essential if the U.S.

Federal Reserve intends to fund the deficit fully and stick to its money supply targets. Overseas investors might therefore have to be tempted by higher interest rates to offset the risk of a falling dollar. Nor does there seem much evidence yet that continued high real interest rates will stimulate savings and so lead to a different equilibrium between borrowers and lenders. In the developed world last year the proportion of income going into net savings (saving minus borrowing) declined. This lower savings ratio enabled consumers to increase their spending and, particularly in the UK, this was the main engine of recovery.

### Weak revival

Company profits have increased rapidly in most countries from very low levels, so that the relatively weak revival of corporate investment in stocks and fixed capital has so far been able to take place without any large rise in loan demands from the corporate sector.

It is doubtful, however, how far the recovery can proceed in the U.S. or elsewhere without more to finance investment. That, in turn, poses the question of whether the present high interest rates will hold

	1983	1984	1985†	1982	1984	1985†
Real output (per cent rise)						
U.S.	3 1/2	5	3	4	5 1/2	5 1/2
Japan	3	4	3	1 1/2	1 1/2	2 1/2
Germany	1 1/2	2	2 1/2	3	3 1/2	3 1/2
OECD Europe	1	1 1/2	1 1/2	5 1/2	5 1/2	5 1/2
Total OECD	2 1/2	3 1/2	2 1/2			
Current balances (\$bn)						
U.S.	-43	-52	-59	9 1/2	8	7 1/2
Japan	22	31	26	2 1/2	2 1/2	3
Germany	5	5	7	9	9	9
Total OECD						
† First half at annual rate.						

back the recovery by depressing corporate borrowing and therefore investment below the levels it would otherwise have reached, particularly in Europe.

Nevertheless, there is a firm consensus that recovery will continue during this year and at least well into next year. The OECD predicts that output will rise by 3 1/2 per cent in the developed world this year, with the U.S. leading the way with growth of 5 per cent followed by Japan at 4 per cent. The prospects for the West German economy have recently been looking better and growth of 3 per cent this year seems well within reach, while in the UK the Treasury is also predicting growth of the same order.

One of the major uncertainties must be whether the acceleration of growth will lead to a resurgence of inflation from the developed world

average of 5 1/2 per cent last year. To prevent this, a continuation of fairly tight financial policies seems probable, particularly in the UK, Japan and West Germany, with continued efforts to reduce budget deficits.

In the U.S. there are already signs that the inflation rate may be picking up somewhat from the average of about 4 per cent for last year and financial markets have begun to be anxious in case future Administration should find itself unable to fund the deficit and resort to the printing presses.

However, it may be that the market fears a complete deterrent to inflationary financing, for in the present climate of opinion any substantial rise in the money supply would probably lead to a sharp rise in long-term bond yields. The

authorities could not, therefore, escape the high interest rate penalty by the methods of the 1960s and 1970s and would have little temptation to stray from the path of monetary virtue.

If that is the case, governments are left with little option but to pursue a course of fiscal and budgetary rectitude. That at any rate seems to be the conclusion of most European governments. It is being pursued with enthusiasm by Mr Nigel Lawson, Britain's Chancellor, and with almost equal strictness — though much less enthusiasm — in Socialist France.

The inevitable consequence is that recovery is proceeding slowly. Unemployment seems set to continue its rise in Europe, though at a slower rate than recently, and the mutual benefits of increased trade show no sign yet of matching that of previous cycles.

## Bulk lending opportunities diminish

### Balance of payments trends

PETER MONTAGNON

corresponding period of 1982 and \$165.1bn in 1981. New lending to non-oil developing countries dwindled to \$3.4bn from \$14.7bn and \$23.1bn respectively.

But it is not just because of the developing country debt crisis that bank lending has slowed down. With the fall in oil prices and a reduction in interest rates that has reduced debt service charges the balance of payments deficits of many other borrowing countries have begun to drop, reducing their need for bank finance.

At the same time oil-exporting Opec countries now face a balance of payments deficit and have given up their role as suppliers of funds to the international banking system.

With hindsight it is clear that some contraction in lending to non-oil developing countries was inevitable. Before the crisis broke it was growing at an unsustainable level of about 20 per cent annually. When it became clear that U.S. interest rates were set to remain high in real terms, exacerbating an already heavy debt service burden, banks had little option but to draw in their horns on lending to developing countries.

What has come as more of a surprise—and a disappointment—to a banking community seeking alternative outlets for loans is the way the needs of other customers have diminished at the same time.

While non-oil developing countries reduced their balance of payments deficit to \$4bn last year from \$65bn in 1982, the industrialised world is also littered with success stories on the adjustment front. France, for example, which has been a major borrower from the banking system, ran a deficit of only FF 29bn last year and this year expects its payments to be in balance.

Estimates from the Organisation for Economic Co-operation and Development (OECD) also show that Sweden cut its deficit to \$750m from \$3.5bn; Den-

	1981	1982	1983	1984
OECD	-25	-30	-24	-42
Opec	52	-16	-31	-32
Non-oil developing countries	-76	-65	-45	-40
Other non-OECD countries	-10	3	4	2

Source: OECD

mark more than halved its shortfall to \$1bn; Italy turned a deficit of \$5.5bn into a surplus of \$1.5bn and Spain reduced its payments deficit of \$5.5bn from \$4.2bn.

The result has been what the Bank for International Settlements calls a "two-tier market." Lending to developing countries has stagnated; what little increase there was in the first nine months was almost entirely the result of forced lending associated with rescheduling operations. The other side of the market is a strong appetite for lending to industrial countries combined with a growing liquidity in the banking system caused by lack of good lending opportunities.

For the first time in three years banks in the U.S. have begun to absorb excess liquidity from the international banking system. During the second quarter of last year net flows of funds to U.S. banks totalled \$4.3bn; by the third quarter they had increased to \$10.3bn.

### Fund suppliers

Usually, U.S. banks act as suppliers of funds to the market. The turnaround, according to the Bank for International Settlements, had little to do with the growing balance of payments deficit of the U.S. (thought to have reached more than \$40bn last year compared with \$11.2bn in 1982). Rather was it the result of the shortage of good lending opportunities elsewhere. Developing countries had become too risky, and credit demand in the industrial world too weak.

The decline in the oil price which saw Opec countries pick up a balance of payments deficit of some \$81bn last year compared with \$16bn in 1981, might have been expected to raise the borrowing needs of oil-exporting countries. Yet as a group Opec nations increased their borrowing only slightly in the first nine months of last year.

According to the Bank for International Settlements they absorbed \$2.5bn in new bank loans less than the \$7.7bn borrowed in the corresponding period of 1982. Withdrawals of bank deposits by Opec nations have on the other hand been relatively high at \$13bn, although this clearly had little impact on overall international bank liquidity.

The shortage of Opec funds was in part at least offset by new deposits from developing countries which managed to increase their holdings of cash with Western banks by \$4.6bn during the first nine months of last year. The supply of funds to the market was further boosted by net interest payments from developing countries as well as an increase in deposits by some smaller developed countries such as Spain, while by the third quarter Opec deposits had themselves begun to rise again, increasing by \$2.2bn.

The overall effect, compared to the Bank for International Settlements, was that banks in the main industrial countries that are traditionally net exporters of capital had begun to absorb it from the outside world.

It is too early to say whether this is just a temporary phenomenon or whether it reflects a lasting recovery in the balance of payments position of the outside area countries," says the bank.

Yet the OECD is forecasting a further improvement in the balance of payments of borrowing countries this year. Non-oil developing countries are expected to record a further \$20bn surplus in 1984, while the smaller industrial countries will register a deficit of only \$3bn compared with \$9.5bn last year. Opec countries will have a little changed deficit of \$20bn, while the U.S. is expected to show a significant deterioration in its payments position with a deficit of over \$80bn which will be partly offset in the aggregate picture by a much increased Japanese surplus of over \$30bn.

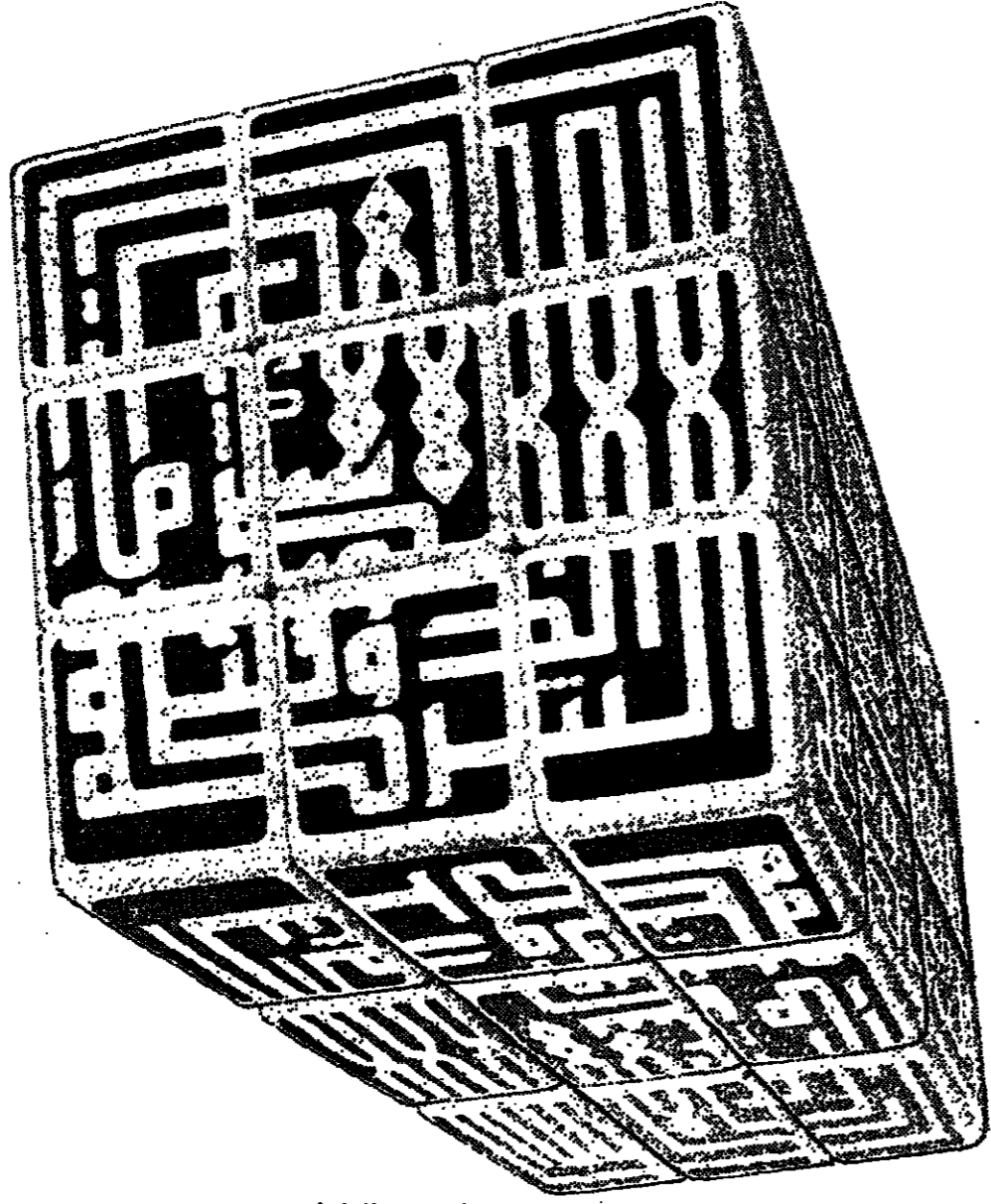
### Dynamic

Forecasts such as these have inevitable implications for the international capital markets. They suggest that the growth dynamic which came from the payments imbalances caused by the oil shocks of the 1970s may be running out of steam. Shortage of business is one reason why banks are now looking more closely at areas that only recently were taboo, such as Eastern Europe. It is also a reason why many banks are actively buying floating rate notes despite their low yield compared with bank credits.

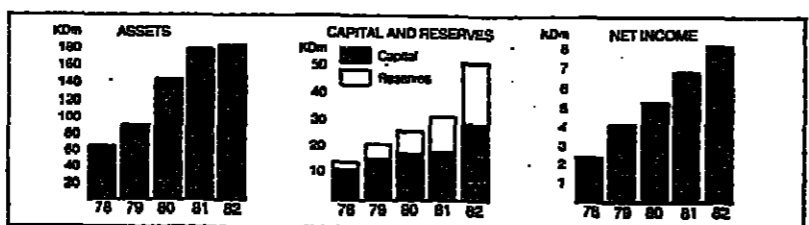
Indeed U.S. banks which have been talking in deposits from the rest of the world are thought to be among the major buyers of such paper, alongside Japanese banks which are traditionally liquid and subjected to limits on medium-term lending imposed by their Ministry of Finance.

The problem is that holding floating rate notes is not particularly profitable for an international bank. Now that balance of payments trends suggest traditional bulk lending opportunities are diminishing, banks face the difficult task of devising new, and profitable, forms of business to keep the capital markets going.

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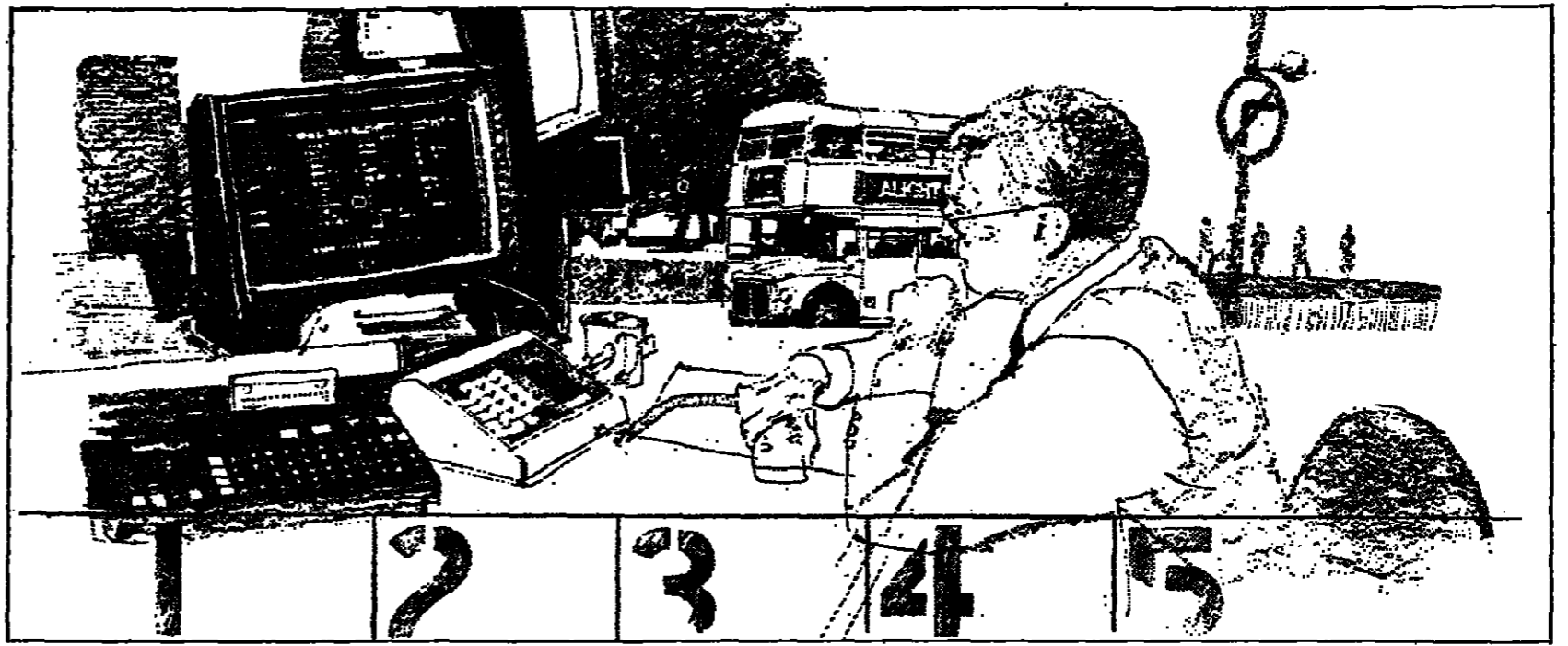
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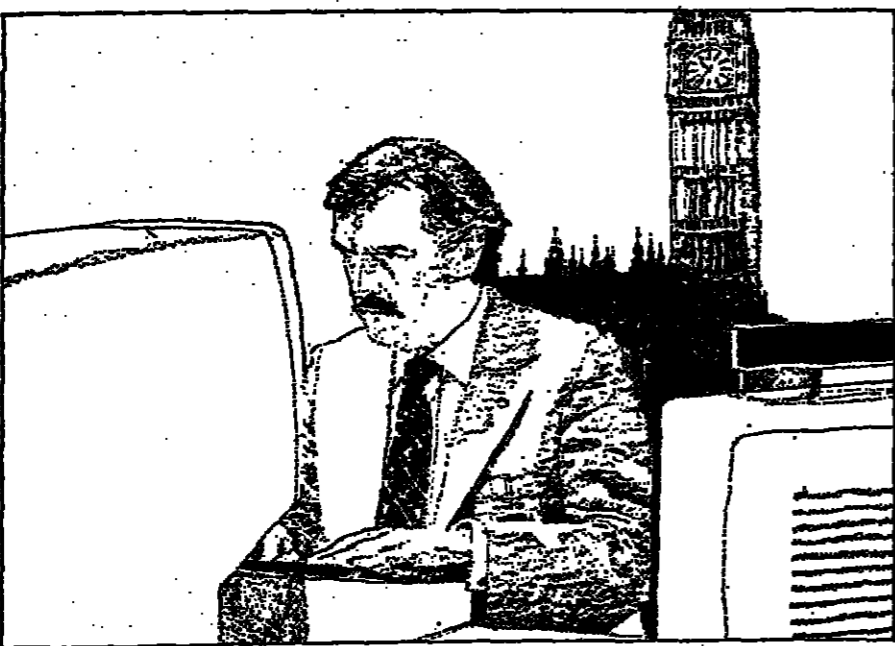
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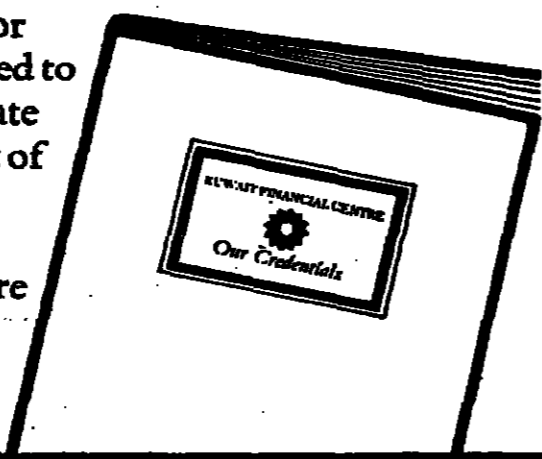
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## Keeping the lenders better informed

THE INSTITUTE of International Finance is one of the only new organisations to be spawned by the debt crisis. Based in Washington its purpose is to keep the banking system better informed about the economies of the major borrowing countries.

Created last year the institute has 187 member banks of all sizes from 39 countries representing more than 80 per cent of global lending to the developing world. Its managing director is M Andre de Lattre, a former

president of the French state financing agency Credit National who has also been involved in negotiating extra funds for IDA, the soft loan arm of the World Bank.

Since January of this year member banks have had "on-line" computer access to the major economic accounts of some 29 countries. The system is expected soon to cover 40 to 50 countries which are indebted to the banking community. For each country the information is provided on an 80-line table which

covers detailed data on indebtedness, including short-term debt and payments arrears, as well as a wide range of macro-economic information.

The institute also intends to produce detailed economic reports on key borrowing countries and will be sending missions to some of them to establish direct contact with borrowers. In this way it hopes to facilitate lending decisions, particularly by smaller banks which lack the resources for in-depth analysis

of borrower countries' economies. It remains to be seen whether the institute will play a powerful role in influencing commercial bank policies towards international lending. This will in part depend on its relationship with its powerful neighbour, the International Monetary Fund, which has so far adopted a rather cautious approach to discussing member economies with commercial banks and their representatives.

## Completion of Brazil package lifts sense of crisis

### Third World debt

PETER MONTAGNON

THE COMPLETION in January of a \$1bn debt rescue package for Brazil may come to be regarded as a turning point in the debt crisis that has plagued the developing world for nearly two years.

At least that is what senior international bankers and officials are hoping. The Brazilian package was put together against all the odds: it was the second time in a year that Brazil had turned to its reluctant bankers for help, and against a background of severe domestic recession its Congress proved reluctant to accept the harsh austerity demands of the International Monetary Fund.

Now the package is complete the sense of acute crisis has lifted permitting both creditors and debtors alike to ponder some of the longer term problems left in its wake.

As the Governor of the Bank of England, Mr Robin Leigh-Pemberton, put it in a recent speech: "The day to day management of debt problems has become somewhat less difficult... We now, I suggest, have an opportunity and a responsibility to think more deeply about the longer term." Yet this is far from saying, as he did a year ago, that the crisis is over.

So far most of the rescue packages organised for debtor countries in trouble have had the immediate objective of keeping them afloat financially. The cornerstone has been an IMF adjustment programme backed up by rescheduling and new loans from banks and sometimes governments as well. Initially bankers hoped that such packages would suffice until a combination of lower interest rates and economic growth in industrial countries floated the debtors gently away from the shoals of default.

### Trade surplus

But what was initially perceived as basically a crisis of liquidity has now come to be viewed as a more fundamental problem. The debt overhang is simply so large that it will take many years before most of the afflicted countries can rebuild their creditworthiness. Meanwhile a way has to be found for them to allow their economies to grow while they continue to use up precious resources in servicing their debts.

Last year, according to Morgan Guaranty Trust, the seven major borrowers of Latin America notched up a trade surplus of about \$30bn, but the shortage of new bank loans meant that this money had to be used to pay interest on foreign debt. For the first time since the oil price rises of the early 1970s borrower countries

have begun to make net payments to their commercial bank creditors. The payments do not reduce their debt, but arise simply because banks are no longer lending enough to cover all the debtors' interest obligations.

According to Mr Tom Clusen, President of the World Bank, developing countries made net payments of \$12bn so commercial banks last year. Two years earlier they had received net transfers of \$16bn.

Worst still, the trade surplus that it being used to meet these payments has been achieved largely through cuts in exports. The seven major borrowers in Latin America last year held their exports to a level 42 per cent below what they had been in 1981. Lower imports mean lower growth, and unless a means can be found of financing some import revival the countries concerned face years

of economic stagnation with little hope of living standards leading to the risk of severe political and social unrest.

As the debt crisis moves out of its acute phase more thought is now being given to this type of long-term problem. What is clear, however, is that the chances of radical intervention by creditor governments still seem slim indeed.

There is little political support for grandiose schemes that effectively involve governments in buying the banks out of the problem by taking over their loans to developing countries. Instead, the basic approach is still a pragmatic one which involves adapting existing solutions for the longer term.

From the banks' point of view one of the most significant changes has been a willingness to accept a reduction of both interest margins and fees. At the same time the maturities on rescue packages have been lengthened to spread the burden of repayment well into the future.

The most dramatic example of this came with the \$3.5bn credit launched for Mexico in late December. The loan bears a maturity of 10 years, four years longer than Mexico's previous

\$5bn loan and interest margins have been cut by up to a full percentage point. Such concessions, both Chile and Peru have obtained similar, though less far-reaching, concessions.

Another change has been an increased willingness of both banks and borrowers to consider the use of currencies other than the dollar. Credit Comptrol de France made its contribution to the latest Brazilian jumbo loan in ECUs, the currency basket of the European Economic Community.

For the borrowers this offers a welcome opportunity to reduce total borrowing costs by diversification out of dollars. Lenders which are not US banks find their standing deposit reduced.

There is, however, not much hope of a marked revival of international bank lending. Mr Jacques de Larosiere, Managing Director of the International Monetary Fund, calculates that bank lending to developing countries rose by only 7 per cent last year. "A marked, though necessary, slowdown from the unsustainable rate of growth in new bank lending—of about 20 per cent annually—prior to the crises of 1982."

To reduce their dependence on bank lending debtor countries are now being actively urged by western governments to open their doors to direct foreign investment. Unlike loans equity investments do not have to be repaid. Says Mr Leigh-Pemberton: "There are no remaining financial obligations if a project should fail. There is foreign exchange cost to the country only when the investment is productive and profits are remitted abroad—and in these circumstances the project itself may well be generating or saving foreign exchange."

Foreign investment can involve a fresh flow of funds to the borrower nation. Or it can be used to reduce the existing overhang of debt. A bank may decide, for example, that it wants to cut its exposure to Brazil even at a loss. It sells its Brazilian loan at a discount to a multinational company wanting to invest in Brazil. The

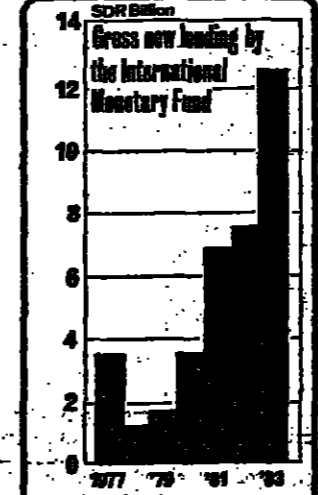
company then collects the currency equivalent of the loan from the borrower and uses the cheaply acquired local currency to fund its new investment. There would, however, have to be an unprecedented revival in foreign investment to make any significant impact on the debt overhang. Like bank lending direct investment in developing countries has declined—according to the World Bank to \$10bn in 1983 from \$15bn in 1982 and \$18bn in 1981. One hope is that the cumulative effect of more investment and lower debt service charges may begin to be felt as the debtor countries recover, especially if this is accompanied by an increase in lending by western governments to finance exports to the developing world.

But for this to happen trade volume needs to be revived strongly. The key for developing countries now seems to lie in their ability to expand exports. The initial stages of adjustment involved a radical pruning of imports. If they can move on to higher exports their credit ratios will improve, and there would be more room to relax austerity with increased imports.

"Over the long run," says Morgan Guaranty Trust, "the only viable solution for Latin America lies in expanding export capabilities. As debt servicing capabilities are enhanced, flight capital returns and economic growth is restored."

Export growth This will require a more radical economic adjustment with the emphasis moving away from import substitution and towards more active export orientation. It will also involve the debtor countries in reassessing the development role of the state so that resources can be freed for the private sector, whose problems have frequently been neglected up to now.

Even on the most optimistic scenario this process will still take several years. Meanwhile banks will have little option but to stand by the debtors with continuing amounts of new money and the whole debt situation will remain vulnerable to sudden upsets and reversals.



Mr Robin Leigh-Pemberton: "We must think about the long term."

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*July 1984*

INTERNATIONAL CAPITAL MARKETS V

Why all eyes are on the Fed

Outlook for interest rates

MARY ANN SIEGHART

A SURVEY OF UK fund managers in December 1982 revealed an almost unanimous view that the dollar would depreciate in 1983. Instead, it followed a relentless upward trend, strengthening by 40 pence against the D-mark.

Interest rates have remained high for two reasons. First, there is the huge Federal deficit, estimated to reach \$180bn this year. The savings ratio in the U.S. has been low for some years, so the Government has to pay high real rates on its Treasury bonds to attract domestic as well as foreign investors.

Investors have often flocked to buy gold when there were political upheavals, say, in the Middle East. Last year, they bought the dollar instead. While gold topped \$500 an ounce in February, it was down to well below \$400 by the end of the year. By contrast, the dollar gained several pence every time a world crisis loomed.

Another problem is the growth differential between the U.S. and many of its trading partners. While real GNP grew by 3.3 per cent in the U.S. last year, the average for Europe was 0.7 per cent and many developing countries saw their GNPs fall.

interest rates and attract the capital back. But this is not so easy. First, if investors are determined to desert the dollar, interest rates may have to rise by a substantial amount to lure them back. Secondly, it faces problems at home, particularly in an election year. It is trying to foster investment, which is difficult in a climate of high rates. And it does not want to choke back the recovery of this year and the year after.

Cheap imports

The strength of the dollar is partly to blame. In real terms, it has appreciated by 30 per cent against the yen and 27 per cent against other currencies since 1981. This has made imports cheaper and U.S. goods less competitive abroad.

Lenders look to their liabilities

THE LDC debt crisis has forced lending banks to think not just about their assets but about their liabilities too. Because reschedulings have reduced the flexibility under which banks usually operate they have been forced to seek methods of funding which are more reliable than borrowing in the volatile interbank market.

The Eurobond market provides two of these sources through fixed-rate bonds tied to interest rate swaps and the direct issuance of floating rate notes.

because their credit rating is not high enough. In the market for floating rate funds, by contrast, the differential is likely to be no more than 100 basis points, or 1 per cent. It is the gap between these two spreads that enables both parties to the swap to save money.

Funding the banks

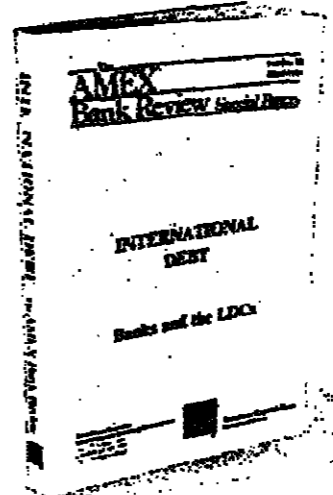
MARY ANN SIEGHART

Banks issued a huge number of fixed-rate Eurodollar bonds last year, almost all of which were linked to interest rate swaps. Salomon Brothers estimates that at least \$10bn of such swaps were arranged in 1983.

Each will keep its own proceeds but will then service each other's interest payments. So far, though, the counterparty is the only one with the advantage, for it has fixed-rate money at a rate well below what it would otherwise have had to pay. So it shares its gains with the bank by paying a small proportion of the floating rate interest as well.

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International Debt



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INTERNATIONAL CAPITAL MARKETS VI

# Increasing reliance on innovation as market declines

## Eurodollar bonds

MARY ANN SIEGHART

IT HAS been a patchy year for the Eurodollar bond market. Though new issue volume was only slightly lower than in 1982—a bumper year—there were several peaks and troughs on the way and bankers had to rely increasingly on innovation to tempt investors back to the market.

New issue managers had two problems to contend with: interest rates which refused to fall and booming worldwide equity markets competing for investors' funds.

Just under \$35m worth of Eurodollar bonds were issued last year, compared with \$39m in 1982. As a proportion of international bond issues, the dollar sector accounted for 55 per cent (1982: 64 per cent).

The volume of new straight bonds fell the most—from \$26.7bn in 1982 to just \$19bn. This was partly due to weak market demand, notably in the summer months, but there was also a reluctance on the part of borrowers to issue bonds.

The main absentee were the U.S. corporations, the favourites of Eurobond investors. Some were loath to borrow because

they thought interest rates had further to fall. Others raised money instead in the equity market. And the rest felt they did not need the funds anyway. Rising profits and more generous depreciation regulations helped to make companies cash-rich.

### 'Bells and whistles'

Most of these corporate treasurers read the market wrong. Coupons pipped just under 10 per cent at the beginning of 1983, and reached peaks of over 13 per cent in August. By the end of the year, coupons on new issues were around 12 per cent.

Yet despite this uptick in rates, total new issue volume was not that much down on the year before. One factor was that rates did not move steadily upwards, and every time there was a slight movement downwards, new issue managers lost no time in launching bonds. Another is that floating rate notes took up a larger percentage of dollar new issues.

But probably the most important factor in sustaining the momentum was the preponderance of "bells and whistles" attached to bonds, designed to lure investors back to the markets.

The first two crazes of the year—partly-paid and zero-coupon bonds—came and went in the first two months as bankers tried to extract the last

stirrings of interest out of an already saturated market.

But once an investor has decided that he does not want to be in bonds anyway, this sort of sweetener is unlikely to work. So instead, bankers pondered the problem from the other side. If investors were deserting bonds for equity markets, why not sell them bonds with an equity content? That way, they could combine the certainty of a high real income from the bond with a chance to take a punt on the booming equity markets.

Thus, warrant fever was born. The first bond-warrant deals—for Hoechst and Siemens—came out in February, but true euphoria struck the market in May.

Issue for borrowers like Deutsche Bank, Credit Suisse and Degussa were launched on coupons of around 7 per cent (compared with prevailing rates of around 11 per cent) and promptly soared to prices as high as 124 before stabilising at around 110.

At one stage the premiums on the warrants (the difference between the current share price and the much higher price at which investors would break even by exercising their warrant) were close to 50 per cent. This meant that the share price would have to be half as high again before warrant-holders could make money.

## Threat posed by U.S. tax move

Apart from the fears of rising interest rates and a weakening dollar, the Eurodollar bond market has another shadow over it, which though it has loomed several times before, may become more concrete in 1984.

That shadow is the possibility of U.S. withholding tax being repealed on domestic securities bought by foreign investors. Instead of having 30 per cent of their interest payments deducted at source, investors would receive the income gross.

The so-called "Gibbons-Coakley" bill, currently before

Only then did the market realise it was being taken for a ride. Everyone tried to take their profits at the same time and prices of many of the warrant deals fell dramatically. Deutsche Bank's issue, for instance, plunged from a price of 120 to 104 in one day.

One of the reasons may have been that new issue managers had just started to price new deals off the back of prevailing market levels. Imperial Chemical Industries' ill-fated deal, for instance, asked investors to stomach a 45 per cent warrant premium. They rebelled: the

Congress, aims to repeal withholding tax, giving foreign investors access to the U.S. domestic market on more or less the same terms that they already enjoy in the Eurodollar bond market.

Because of the tax-free and bearer nature of Eurobonds U.S. corporate borrowers can often get away with paying a lower coupon on their bonds than the U.S. Treasury itself has to pay in New York. If withholding tax disappeared, this advantage would probably vanish because U.S. corporations would be competing directly with the Treasury for funds.

The repeal could also be price fell from its odd 123 issue price to 111 in one week.

The next craze to hit the Eurodollar bond market was the "ET"—while the rest of the world was raving about a bug-eyed extra-terrestrial monster, the bond market was reveling in its new-found EuroTreasury warrant.

Pioneering the idea was the fledgling Quadrex Securities. It tried to sell 200,000 warrants on behalf of the U.S. conglomerate Transamerica, each of which entitled the holder to buy a 108 per cent U.S. Treasury bond

due 2012. The warrants had to be exercised within a year and the strike price was fixed at 92. Despite Quadrex taking out full-page advertisements in three national newspapers the day the deal was launched, not enough people were prepared to buy the warrants even at their minimum tender price of \$49.50 and by lunchtime, the issue had to be cancelled.

Quadrex's problem lay not in the idea but in the pricing. It was asking investors to pay a premium of 11 per cent over the prevailing price of the Treasury bond—a premium

which was considered by most people to be too high.

Or to put it another way, the yield on the underlying bond would have had to drop by 123 basis points (1.23 per cent) within the year for the investor to break even.

So other issuing houses used the idea with a more realistic pricing. Within two days, both Merrill Lynch and Salomon Brothers had launched their own ET issues with premiums more in line with market sentiment. In the next six weeks, these were followed by similar deals launched by Deutsche Bank (Siemens), First Boston and Paribas. Merrill Lynch, Royal Securities also adapted the idea for the Canadian dollar market.

But like many market crazes, this one eventually suffered from over-supply. The idea may have been intellectually appealing, but too few investors were prepared to buy the warrants.

Professionals in the market and sophisticated investors could play around in the Chicago options and futures markets, themselves without having to pay Merrill or Salomon for them. Many other investors were wary of the instruments—possibly they did not fully understand them. And there were not enough in between to make the ETs truly marketable.

### Competition

When investment bankers were not busy devising new formulas to attract investors to their bonds, they were engaged in fierce competition with other banks.

Many borrowers threw their mandates open to competitive bidding and in the syndicated loan market, when banks tend to form into groups to bid for a mandate, most Eurobond bids come from individual houses.

This leads to several problems. First, the borrower may have as many as 20 offers to sort through. But worse, a bank which has bid for a mandate, and failed to win it, is unlikely to accept an invitation to co-manage the bond from the bank that has won. Partly this is because the bank is too hard for a bank to join a deal on terms tighter than it proposed itself.

This bodes ill for the bond's performance in the market. It is likely to be very aggressive if the winning terms were the tightest offered.



And on top of that, the houses with the best placing power which also bid for the mandates are unlikely to be in the eventual deal.

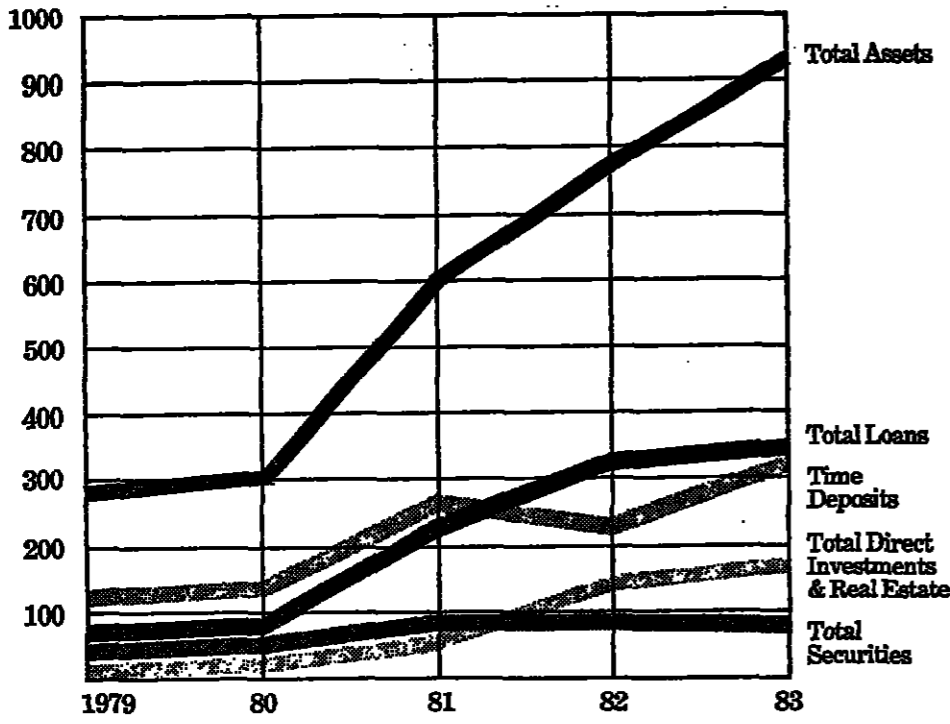
Competitive bidding often made it difficult to make money on managing fixed-rate bonds last year. It also brought down the margins on syndicated loans and floating rate notes. The latter, in particular, were much more lucrative business for lead and co-managers a few months ago than they are now.

So provided the yield curve remains positive, and dealers can finance their bond holdings at a lower rate than the coupon interest they receive, secondary market trading may prove more lucrative than primary market activity this year.

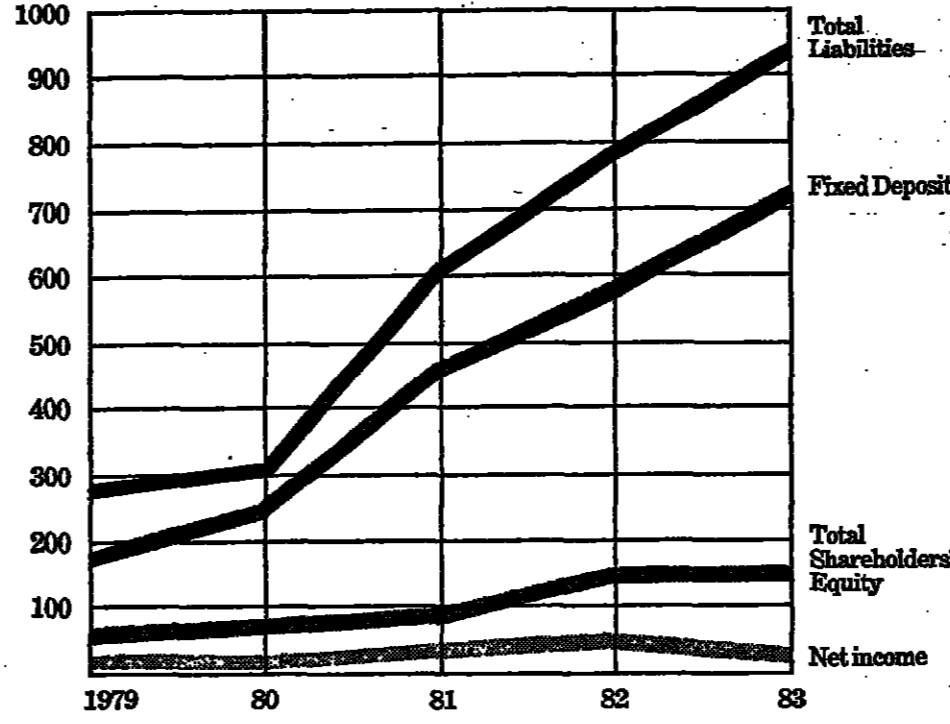
But dealers will have to read the market well. Rarely has there been such uncertainty about the direction of U.S. interest rates. Some people are distinctly bearish now, saying that the Federal Reserve will have to put the brakes on U.S. money growth to ensure that the recovery does not fuel inflation. Others believe that the recovery is slowing down and that the Fed would not let rates rise much in an election year.

What is just as worrying for the Eurodollar bond market is the direction of the dollar. It has weakened substantially so far this year, leading heavy institutional investors to liquidate their dollar holdings and move instead into currencies like Deutsche marks or sterling.

If the dollar continues to slide, Eurodollar bonds may account for a greater, smaller proportion of international bond issues than they did last year.



Assets	1983 KD	1982 KD
Current and call accounts with banks	3,802,577	14,279,271
Time deposits	327,267,568	225,792,352
Marketable securities		
Straight bonds and debentures	26,526,224	32,670,799
Equity-linked bonds	3,833,741	3,640,793
Equity	46,999,634	49,374,965
Loans and other securities	339,621,354	311,738,561
Real estate	101,277,359	82,381,777
Participations in subsidiary and associated companies	40,796,861	37,013,511
Trade investments	8,496,498	6,426,296
Other assets	20,686,635	23,740,688
<b>Total Assets</b>	<b>919,308,451</b>	<b>787,058,918</b>



Liabilities and Shareholders' Equity	1983 KD	1982 KD
<b>Liabilities</b>		
Fixed deposits	708,012,313	565,807,454
Current and notice accounts	45,758,233	73,991,208
Notes Issued	14,000,000	—
Other credit balances	23,864,839	24,176,269
<b>Total Liabilities</b>	<b>791,635,385</b>	<b>663,974,931</b>
<b>Proposed dividend</b>	<b>3,450,000</b>	—
<b>Shareholders' Equity</b>		
Capital authorized and issued:		
69,000,000 shares of KD 1 each	69,000,000	60,000,000
Proposed bonus shares	—	9,000,000
Statutory reserve	10,448,166	9,963,445
General reserve (including KD 36,724,620 share premium) unappropriated profit	44,587,555	44,102,824
187,345	—	17,708
<b>Total Shareholders' Equity</b>	<b>124,223,066</b>	<b>123,083,932</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>919,308,451</b>	<b>787,058,918</b>

## Funding the banks

CONTINUED FROM PREVIOUS PAGE

pays the fixed-rate interest of say 12 per cent plus an additional 1 per cent, again much less than it would have had to pay had it raised money on its own behalf.

But like all arbitrages the gains are eroded as more people take advantage of them. Banks had to pay steadily rising coupons on their bonds last year because they were making such heavy demands on the market.

The competition hotted up too for the lucrative swap fees paid to the banks which arrange the deals and often take on the risk of either party reneging on its obligations. So these fees were squeezed and swaps became rather more difficult to arrange.

The ultimate losers, though, have probably been the less sophisticated investors and the co-managers of swap-related bond issues.

To accommodate the terms of a swap, the fixed-rate bond has to be aggressively priced for the market. Unwary investors, or those who have their funds managed on a discretionary basis, have therefore ended up with bonds which are bad value.

The manager of the bond can afford to have pricing which is too tight because even if he loses money placing the bonds he is cushioned by the fee he receives for arranging the swap. But co-managers get no such cushion and frequently lose money. Obviously they can refuse the invitation to join the management group but they then run the risk of not being invited next time round.

All these factors have combined to make the interest rate swap less attractive than it used to be.

The method also relies heavily on how healthy the fixed-rate Eurodollar bond market is. Last November and December the market was virtually closed to borrowers. So banks turned instead to the floating rate note market, where demand was very strong.

The margin a borrower has to pay over Libor on an FRN has narrowed considerably since the middle of last year. Then the typical spread was 1 per cent, recently banks have issued FRNs paying no margin over Libor at all (though the all-in cost is slightly higher because fees have to be paid to managers). This makes the FRN market a reasonable alternative to doing an interest rate swap.

Attaching warrants or other gimmicks to a floater can make the all-in cost even less—sometimes under Libor. For instance, Dresdner Bank issued an FRN with warrants to buy its equity and Manufacturers Hanover launched a fixed-rate bond convertible to a floater

### TOP COMMERCIAL BANK BORROWERS IN THE INTERNATIONAL BOND MARKETS 1983

Bank	total raised (\$m)
Credit Lyonnais	712
Banque Nationale de Paris	701
Dresdner Bank	598
Deutsche Bank	543
Barclays Bank	494
Long Term Credit Bank of Japan	458
Nippon Credit	443
Citicorp	384
Bank of Tokyo	375
Industrial Bank of Japan	371
Credit Agricole	350
Credit Suisse	300
Fuji Bank	300
Security Pacific	300

Source: Salomon Brothers

paying 1 per cent under three-month Libor. The coupon on the fixed-rate bond was well below market rates too.

The CD market is the third source of medium and long-term floating rate funds. CDs are short-term bank deposits which are also tradable. There is a broad secondary market in them, so they appeal to investors like commercial banks, corporations and central banks as liquid cash instruments.

The alternative to issuing a straight CD is to set up an "issuance facility" under which other banks agree to buy a certain number of the borrower's CDs at any time during the facility's life. Spreads on CDs can vary from 1/8 per cent over Libor to 1/2 per cent under. Because each certificate's life is only six months the rates are generally lower than on FRNs.

However, the risk is slightly greater. In normal circumstances the issuer can guarantee himself say five or seven year money by arranging a facility of that length.

But if serious problems arose, like a banking crisis, the roll-over market could be threatened and the issuer would not be sure of getting his money. With an FRN, by contrast, he gets his funds up front for the life of the bond and does not have to repay them until the end.

The increase in the issuance of CDs and FRNs by banks shows how aware they have become of the importance of liability as well as asset management. The debt crisis has taught them to watch, not just to whom they lend but also where they borrow.

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INTERNATIONAL CAPITAL MARKETS VII

Rapid rise to prominence



Mr Stephen Brisby, a director of Schroders, the London merchant bank.



Mr M. Kurokawa, president of Nomura Securities, predicts a "widening out" of the way Japanese companies fund themselves internationally.

Floating rate notes

MARY ANN SIEGHART

ONE OF the outstanding features of 1983 in the Euro-dollar bond markets was the increase in the number of floating rate notes launched.

In periods when interest rates are rising, it makes more sense to buy a floating rate note than to lock into a fixed-rate bond whose price is likely to fall.

Last year was the year in which floaters began seriously to challenge the role of syndicated loans, both for issuers and investors.

Since these traditional borrowers were moving away from the Eurocredit market, the traditional lenders — commercial banks — had to follow suit.

banks — had to follow suit. Because of the dearth of good borrowers left in the loan market, banks were forced to buy FRNs instead to maintain the asset side of their balance sheets.

The advantage to the banks is that unlike most loans, FRNs are eminently marketable. The turnover of the "jumbo" floaters launched last year has been remarkable — according to figures from Eurpelear, the EEC \$1.8bn and the Sweden \$1.2bn issues were among the most actively traded Eurobonds of last year.

Because of the liquidity advantage, banks have had to be content with much lower returns than they would get on syndicated loans.

The surge in demand for floating rate notes pushed their new issue volume up to nearly \$14bn last year, according to figures produced by Salomon Brothers in New York.

Despite the huge leap in supply, demand was still strong enough to allow spreads to narrow. While Sweden had to pay 1/2 per cent over Libor for

its bond in the first half of last year, the typical margin narrowed to 1/2 or 3/4 per cent over Libor towards the end of 1983, and some bonds were being launched with no spread over Libor at all in January and February of this year.

The World Bank even issued a floater linked to U.S. Treasury bills which yielded about 0.30 per cent less than Libor. However, many bankers feel that the market for such low-yielding assets is pretty limited and that the experiments may well not be repeated.

Maturities, too, have been stretched almost to their limit. The life of an average floater used to be around 10 years. But with the increased liquidity, issuing houses claim that the final maturity has become much less important.

Many bonds are now issued with lives of 15 to 20 years, but the final test came when Sweden tapped the market with a 40-year floater which had no early redemption options for investors. Like the World Bank issue, this was perceived as a one-off as investor demand was limited.

The problem is that — like many Eurobond crises — this one seems to have gone a bit too far. By the end of February, it was clear that there were too many issues overhanging the market and that the narrowing of spreads and lengthening of

themselves. That is not to say that conditions will revert to those more common at the beginning of last year, but there is certainly room for some readjustment.

Such readjustment has already begun to happen. Prices of seasoned FRNs started to slide halfway through February to bring spreads up to more realistic levels. And new issues are starting to be launched on more generous terms.

There is a fear that demand will drop off after the end of this month. Japanese banks have been heavy buyers of FRNs, using them to boost the asset side of their balance sheets for the financial year-end on March 31.

If they have borrowed short-term money to fund the purchases of these floaters, they may want to sell the FRNs off rather than renew the borrowings.

For the rest of this year, it will be interesting to see how the balance of floating rate management business is split between commercial and investment banks.

Last year, for instance, the volume of syndicated loan business — traditionally arranged by commercial banks — dropped dramatically to be replaced, at least in part, by FRNs led by investment banks. Credit Suisse First Boston led nearly a third of the FRN new issue volume, followed by Merrill Lynch in second place.

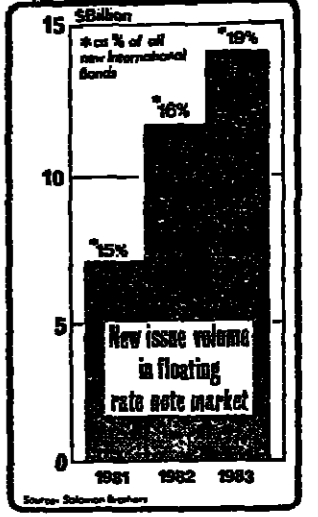
is intense. To make matters worse, a team of ten bankers from CSFB defected to Merrill in January, including Scandinavian specialist Caleb Watts. The next Swedish mandate was promptly won by Merrill.

Despite that, however, many bankers feel that CSFB has not been seriously threatened in its position at the head of the league tables.

It is noticeable that the commercial banks are now trying to get involved in FRN business too. Having decided in 1982 that it was safer to make money on fee-related business rather than on risky lending, they now feel that they cannot sit back and let themselves be ousted by the investment banks. Bank of America, Citicorp, Manufacturers Hanover and Bankers Trust, for instance, have all led FRN issues recently.

Investment bankers may now try to get involved on the loan side. There has already been a noticeable blurring of the distinction between FRNs and credits. Sub-participation in loans is on the increase, giving loans a limited secondary market. The issuers of FRNs are finding that the people lending their money are similar to those who last year would have participated in a loan to them.

Now both investment and commercial bankers are trying to come up with products that blur the distinction still further. The idea is to combine



marketability of an FRN with the higher spreads available on credits.

Possibilities include regular tender panels at which investors can either bid for paper at a price they choose or sell the paper back to the lead manager and his underwriters.

Bankers have also talked about the idea of packaging loans as securities — the way mortgages are treated in the U.S. — with the possibility of taking them off banks' balance sheets.

Meanwhile, the shortage of lending opportunities in the loan market means that banks which are flush with cash should still want to buy floating rate notes. This year's uncertainty about the direction of interest rates should ensure that investor demand remains healthy.

System more accessible to outsiders

The Japanese connection

DAVID LASCELLES

APRIL 1 may not be the most auspicious day to initiate change. But this year it is supposed to be a big date in the Japanese financial calendar.

On that day, the Tokyo Government — under pressure from the U.S. — is to embark on the next stage of its gradual liberalisation of the financial markets. As so often in Japan, the changes may be more apparent than real. Even so, there is no mistaking the trend: Japanese capital markets are becoming more accessible to outsiders, and Japanese institutions are much more aggressive in markets overseas.

Several findings are supposed to happen:

Japanese borrowers will be allowed to tap the Euro-yen bond market for the first time.

Forward foreign exchange trading in Tokyo will be freed from the "real demand" rule which states that a genuine commercial transaction must underlie each trade.

Banks will be allowed to raise more money on the Tokyo money markets through sales of certificates of deposit, and access to the Samurai bond market will be eased slightly.

These reforms belong to a much larger package of measures that Japan agreed to last year at the Reagan-Nakasone summit as a gesture to head off mounting anger at its huge trade surpluses.

The ostensible aim was to open up the Japanese finance industry to the outside world, and permit the yen to play a role that matches Japan's international importance.

Although the Reagan Administration hailed the package as a major triumph, there was some criticism in the U.S. For one thing, Japan had already launched some reforms, largely because its regulation-cramped capital markets were obviously not up to the job of financing the Government's burgeoning budget deficits. For another, it will probably do less to correct the yen's weakness against the dollar (Washington's biggest worry) than a drop in U.S. interest rates.

The extent to which the all-powerful Ministry of Finance is prepared to give the yen a freer rein almost certainly depends more on the country's financial fortunes than jawboning from Washington. But at least Japan accepts the need for change and, as a ministry official said, "That's a revolution."

Change

Mr M. Kurokawa, president and managing director of Nomura International, the European arm of the giant Tokyo investment house which is keen to see change for obvious commercial reasons, admitted at a recent FT conference that Japan's ethics were "ambiguous". But he predicted "steady and controlled growth" in the yen bond and syndicated loan markets, and a "widening out" of the way Japanese companies fund themselves internationally.

Japan's handling of the Euro-yen bond question is typical of the enigma. Tokyo has never been very enthusiastic about offshore money — which government is not? And since this market got started in 1977 there have only been 26 issues totalling ¥400bn (\$1.7bn). Borrowers have been restricted to top quality official institutions outside Japan.

From April 1 Japanese companies will be able to use the market for the first time. But though "guidelines" have been drawn up, these are rather skeletal since the Ministry of Finance's tax bureau has refused to lift withholding tax on interest payments, so the appeal to foreign investors will be minimal. The brain-teaser is whether the tax bureau is acting out of principle or front-loading for the ministry as a whole.

The block will not be total,

of course. Japanese investment bankers predict that there will be a market for things like convertible issues which carry loan coupons where the tax "bite" is smaller. Japanese corporations have shown tremendous enthusiasm for convertible issues in other currencies in the past, notably Swiss franc.

Borrowers will continue to issue bonds denominated in other currencies but designed to perform as if they were yen bonds. The abolition of the "real demand" rule should also make it easier to put together sophisticated currency-based deals from Tokyo, though this has always been possible for anyone dealing in yen from anywhere else.

There is no question that the borrowing demand is there. Last year, Japanese corporations raised nearly 50 per cent of their financing abroad, partly because terms were more attractive, but also to escape the restrictions of the domestic market, like the requirement that they put up collateral against bond issues.

But the Japanese are more likely to feature as investors in the Euromarkets than as issuers. "With their vast capital surpluses they have been flooding foreign markets, particularly bonds. According to the Ministry of Finance, Japanese net purchases of foreign bonds in the first six months of last year equalled the total amount bought in 1983, about ¥1.4 trillion (\$5.25bn)."

Japanese banks have shown a voracious appetite for floating rate notes and have become the mainstay of that booming market, though this is also due to the authorities allowing banks to fund themselves more freely, and cheaply, when buying securities than when making loans. "The last thing you ask yourself when you put together a deal is what the Japanese will buy," says a London dealer.

The recent weakening of the dollar, disillusionment with the syndicated loan business, and signs of saturation in the FRN market do, however, raise questions about where the Japanese go next. And since they invariably move in waves their choices could have a big market impact.

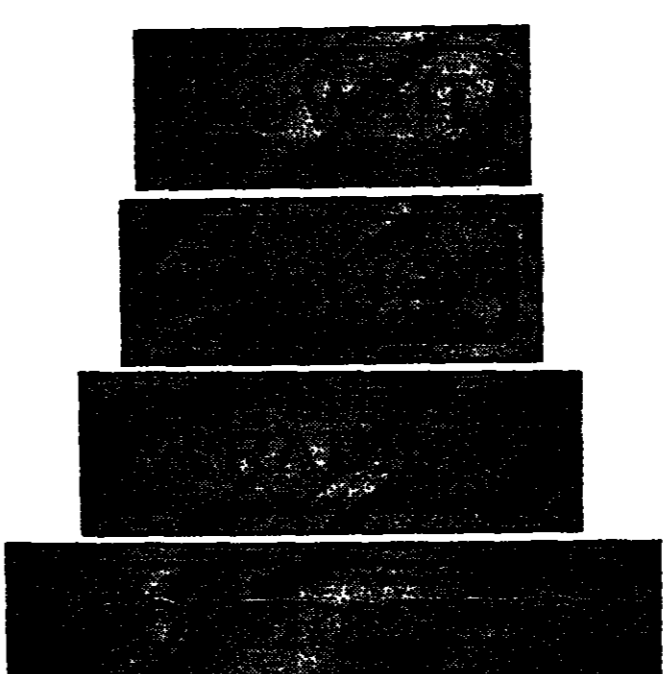
Mr Nobuyuki Takai, deputy general manager of the London branch of Sumitomo Bank, for example, says his bank did not meet its FRN purchase targets in the past few months because the margins were too thin, and is now casting around for new business.

The Japanese are obviously keen on the U.S. Fuji Bank and Mitsubishi Bank have recently splashed out hundreds of millions of dollars buying banks there. By European standards they are latecomers, but they make up for that in size; Japanese banks now have the biggest foreign share of the California market. South East Asia, which they neglected even though it was on their doorstep, is very much in favour.

But the best indicator of things to come may well be Sumitomo's recent \$1.4bn acquisition of a controlling stake in Gotthard Bank of Lugano, the first European purchase by a Japanese bank. The deal was clearly designed to boost Sumitomo's presence in investment banking and enable it to put together securities-based deals rather than just loans. Gotthard is also strong in investment management — another field the Japanese have their eye on.

Mr Stephen Brisby, a director at Schroders, the London merchant bank which initiated the deal, believes it is part of a trend. "Japanese banks are very keen to get into the securities business," he says.

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decline... ng the ba... TOP COMPANY BANK BORROW IN THE INTER BOND MARKET 1983 Credit Lyonnais Banque Paribas Citibank Deutsche Bank Barclays Bank Long Term Capital Markets Corp. Industrial Bank of Japan Credit Suisse

INTERNATIONAL CAPITAL MARKETS VIII

New issue volume high despite ties with U.S.

Foreign borrowing increased

D-Mark bonds

MARY ANN SIEGHART

THE DEUTSCHE-MARK Euro-bond and foreign bond market has found itself annoyingly dependent on the vagaries of the U.S. domestic bond market over the past year. It is only in the past couple of months—with a strengthening D-mark—that a decoupling of the two markets has begun.

weak against the dollar, as was the case for most of last year. Deutsche-mark bond dealers, like their Eurodollar counterparts, watched the opening of the New York bond market anxiously each afternoon and marked their prices up or down accordingly.

more than DM 1 bn again. But despite the occasional brakes put on the market by events in the U.S., total new issue volume for 1983 was up from DM 12.7bn to DM15.9bn. The proportion of D-mark bonds in all international bond issues rose too — from 7.1 per cent to 8.5 per cent.

happen halfway through the year and since the autumn, foreign investment in D-mark securities has overtaken German investment in foreign securities. In terms of fundamentals this makes sense. Germany now has a positive current account balance which has reduced its public spending and inflation is around 3 per cent.

American Development Bank—a triple-A-rated borrower—had to pay 8½ per cent on a seven-year bond, while PepsiCo—a double-A U.S. corporation—got away with just 7½ per cent for 10 years.

vious defeasance, was designed to have an added benefit. Under defeasance rules in the U.S. — intended to apply to companies wanting to retire their existing debt early — the process allows the whole transaction to be taken of the company's balance sheet. So PepsiCo, for instance, would have made a DM 1.75m profit a year with no adverse implications for its gearing.

now have to appear on companies' balance sheets. At the moment though, there seems to be very little demand constraint on the volume of new issues. The January-February calendar scheduled DM 2.7bn in five weeks and the latest March-April one plans DM 2.05bn in the same amount of time. And the bonds have been trading at small discounts, well within their selling concessions.

Guilder bonds

PETER MONTAGNON

LAST YEAR was a record one for the Dutch bond market with total new issue volume rising to Fl 80.15bn from Fl 55.7bn in 1982.

A large part of the new volume was absorbed by the Dutch state which raised Fl 23.6bn, but Holland's growing balance of payments surplus and weak credit demand at home created room for a substantial increase in borrowing by foreigners.

Foreign issues in the domestic market last year accounted for Fl 5bn of the new issue volume compared with only Fl 2.5bn in 1982. To this must be added new issues of Euroguilifier bonds which banks in Amsterdam reckoned rose to Fl 1.6bn from about Fl 1.1bn a year earlier.

Despite the large requirements of the Dutch Government there was little sign of other borrowers being crowded out as demand for guilder investments brought rates sharply lower.

Yields on ten-year government bonds touched a low point of 4.5 per cent in March, according to Morgan Guaranty Trust, although by the end of the year they were a good percentage point higher.

For foreign investors the coupon differential with the D-Mark sector has been reduced significantly. Normally guilder bonds carry a premium over those in the German currency which has been as high as 2½ per cent in February, however.

Two factors have combined to produce buoyant conditions in the Dutch capital market. Last year the savings rate was particularly strong, while the balance of payments was in healthy surplus, estimated by banks in Amsterdam at around Fl 15bn. This year the surplus could increase to almost Fl 20bn, some forecasters believe.

That would mean that buoyant conditions in the bond market should continue, allowing for a continuation of new issues in 1984. Inflation factors remain, however, such as the need for some premium to be maintained vis-à-vis the D-Mark sector as well as the general constraint on interest rates emanating from the U.S.

Although there is not much risk of the guilder being sharply against the D-Mark because of the high Dutch balance of payments surplus, most bankers believe that some premium over D-Mark issues is needed to keep investors interested in the Dutch market.

Foreign issues are placed predominantly in Benelux countries — in Switzerland, where investors would be acutely aware of any loss of advantage over the German market.

Both the Dutch and the German capital markets have recently benefited from foreign buying as investors sought to diversify out of the U.S. currency.

Enjoying a renaissance

THIS TIME last year the sterling bond market was in the doldrums. Only one building bond had been launched in the previous four months and that was underwritten despite being generously priced.

But sterling bonds have seen something of a renaissance since February (floating rate notes) followed the obvious answer. That market had not been tapped for three years when Societa Nazionale des Chemins de Fer (SCNF), the French railways, launched its first in September through S. G. Warburg.

The issue was scheduled to be 550m but demand was so strong that Warburg topped it to 775m within hours. It still traded extremely well.

The gap in the market had arisen for three reasons. Government loan demand had fallen because of better cash flows and local authorities, which used to borrow from banks, were raising funds more cheaply from the Public Works Loan Board.

On top of that the Bank of England decided to slow down the growth in the sterling acceptance credit market — the market in short-term trade bills — which had proved particularly popular with foreign banks operating in the City.

Other floating rate note issues followed SNCF — the first four of which were also led by Warburg. Then competitive bidding hit the market in a big way and several issues suffered from being priced too tightly.

The demand for floating rate sterling assets is evidently still there — but only at the right price.

New issue activity in sterling has continued to be heavy so far this year, boosted by the relative strength of sterling against the dollar. Bankers expect the market to remain strong at least over the next few months.

In November, too, yields on Eurosterling bonds moved below those on Eurodollar bonds. For the first time in the year it was both easier and cheaper to borrow in sterling.

By this stage, foreign investors — particularly the Swiss — were worried that the dollar was likely to depreciate. Sterling bonds offered only slightly lower yield and there were better prospects of cur-

rency gains. It was in the autumn too that UK merchant bankers recognised the potential of floating rate notes denominated in sterling.

Demand from banks for sterling assets was growing so fast that the issue of sterling FRNs (floating rate notes) seemed the obvious answer.

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Another record year

THE SWISS FRANC capital market had another record year in 1983 with total new issues of foreign bonds and private placements reaching nearly SwFr 31bn compared with only SwFr 27.7bn in 1982.

This volume was achieved despite much movement in interest rates. In fact yields on long term Swiss government bonds which started the year at 4.28 per cent finished at higher at 4.56 per cent after rising to a peak of 4.75 per cent in September.

At these levels Swiss interest rates are still, however, very high in real terms. Inflation in January was 2.7 per cent on a year-on-year basis, while for 1983 it was only 2.1 per cent, the second lowest in the industrialised world after Japan.

Coupled with Switzerland's strong current account balance of payments surplus this meant that the currency was less susceptible than others to weakness caused by the high U.S. interest rates.

In fact the D-Mark slipped during the year to an average monthly level of just under SwFr 0.80 in December from well over SwFr 0.94 a year earlier, though it has since recovered as the D-Mark has gathered strength generally.

German bankers argued that the weakness of their currency against the Swiss Franc reflects the latter currency's continuing attraction as a haven for capital flight funds. This may partly explain its relative strength last year, but the fact remains that demand for Swiss Franc denominated investments allowed the Swiss bond market to be the second largest in terms of new international issue volume last year after the U.S. dollar.

Borrowing demand was boosted strongly by the appetite of Japanese corporate borrowers for Swiss Franc issues, many of which were convertible into equity. As in other bond markets these issues appealed to investors anxious to climb on the bandwagon of a very firm

stockmarket in Tokyo. At times signs of saturation of such issues appeared in the Swiss market, but in a contrary movement to the general trend coupons on such private placements have fallen with a record low of 1½ per cent being established.

The Swiss authorities have meanwhile been taking a series of steps to liberalise the capital market, the latest of which came in a circular to banks last December.

From this year the ceiling on individual public bond issues by foreigners has been increased to SwFr 200m from SwFr 100m. The Swiss National Bank has also dropped its confidential calendar for new issues, though banks still have to seek approval for individual floatations.

The purpose of the measures was basically to improve the flexibility of the new issues market, but one restriction remains in that foreign banks are still unable to lead or co-manage issues in the public market. It is understood that this reflects continuing uncertainties over the depth of their placing power.

The Swiss franc market has also been experiencing a number of innovations in new issue techniques, the most prominent of which has been in the area of dual currency bonds. These are issues denominated in Swiss francs but repayable in U.S. currency at an exchange rate fixed at the time of issue.

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Another innovation that has recently appeared has been the emergence of floating rate private placements starting with a SwFr 100m issue for ENEL, the Italian electric utility. Led by Citicorp, Switzerland's seven-year notes bear interest at a margin of 1 per cent over Swiss franc deposit rates.

But the launch of such floating rate notes and the development of the dual currency market have a deeper significance for the Swiss market. They show that it is a maturing market which is no longer exclusively in the hands of a conservative syndicate of major domestic banks.

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The Kingdom of Denmark

U.S. \$500,000,000

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Canadian dollar eurobonds

PETER MONTAGNON

THE MARKET in Euro-Canadian dollar bonds has lost some of its lustre in recent months as yields have fallen, eliminating the traditional differential with those in U.S. currency.

As a result coupon-conscious retail investors in the Benelux countries who are traditional buyers of these bonds have lost interest in the paper. At the same time yields in Europe have remained above those on the Canadian domestic market, prompting Canadian borrowers to switch their funding homewards.

Issues of Canadian dollar eurobonds stagnated last year at about their 1982 level of C\$1.47bn, according to the Canadian securities firm Wood Gundy. But there was a marked drop in both the total number of issues and in the amount absorbed by Canadian borrowers themselves. Out of a total of 27 issues in 1983, 20 were brought to the market by Canadian borrowers for a total value of C\$1.07bn. In 1982 there were 36 issues in all, of which 33 were placed by Canadian borrowers for a total of C\$1.28bn.

The lower yields on Canadian dollar bonds prompted some new international borrowers to tap the market. In September the World Bank floated its first-ever Canadian dollar Eurobond,

a C\$75m seven-year issue with a coupon of 12½ per cent. This was only ¼ per cent more than the World Bank had paid on a U.S.\$200m bond shortly before. In December the European Investment Bank followed suit with a 12½ per cent eight-year issue for a total of C\$80m. The proceeds were used in a currency swap.

But it is symptomatic of the general problem facing the Canadian dollar Eurobond market that the World Bank's next foray in Canadian currency was on the domestic market with an issue earlier this year of C\$100m over five years at a coupon of 11½ per cent. This was a lower rate than it would have had to pay for a Eurobond and like many Canadian borrowers it had decided to tap the domestic market instead.

The new relationship between domestic and Euro-yields in the Canadian dollar bond market has prompted an increase in arbitrage activity by investors. Increasingly, issues in the Euro market have been finding their way back to Canada as investors there seek out the higher yield. At the same time demand for Canadian dollar paper from Germany, Switzerland and Japan has increased. This reflects a perception that the Canadian dollar should at least stabilise if not appreciate against the U.S. currency.

The improving Canadian economy and the country's large trade surplus have in fact helped to keep the Canadian currency broadly stable against the U.S. dollar over the past year. This in turn has meant that it has appreciated against European currencies which have weakened against the U.S. dollar.

But bankers generally agree that it will take a restoration of the Canadian dollar coupon premium over the U.S. dollar market to generate any significant extra demand for Eurobonds denominated in Canadian currency. For lack of such a premium investors in the Benelux countries have been looking elsewhere—for example at the burgeoning market in Australian dollar-denominated bonds.

Nor has the Canadian dollar market been able to benefit from the fashion for floating rate notes in the Eurodollar sector. Canada has an active and well developed capital market for floating rate instruments. As a result Canadian borrowers are easily able to obtain such funds domestically at rates well below the country's prime rate.

LONG TERM CANADIAN GOVERNMENT BOND

YIELDS VS. U.S.

TREASURY BONDS

Table with 3 columns: Year, Canada, U.S. Rows include 1983, Jan, Feb, March, April, May, June, Jul, Sep, Aug, Sep, Oct, Nov, Dec.

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# INTERNATIONAL CAPITAL MARKETS X

## Star performance last year reflects growing vogue

**ECU bonds**  
PETER MONTAGNON

ONE OF the star performers in the international capital markets over the past year has been the European Currency Unit (ECU), the currency basket of the European Economic Community.

According to Morgan Guaranty Trust, new international bonds denominated in ECUs were equivalent to \$2.02bn last year compared with \$1.98bn in 1982 and only \$309m in 1981. Use of the currency in the Eurocredit market has also been growing, with the launch early this year of an ECU 450m credit for Ente Nazionale Idrocarburi, Italy's state energy conglomerate.

At the same time trading of ECU deposits in the interbank market has also become more sophisticated. In the early days most trading took place by reference to the weighted deposit rate for component currencies of the ECU; now it is increasingly handled on an outright basis which means banks are dealing ECU deposits without breaking them down into their component currencies. According to Mr Yves Le Portz, president of the European Investment Bank, some estimates now put the total being placed in the money markets as high as ECU 10bn.

### Clearing system

So far has this process gone that those banks which now specialise in ECU business are discussing the creation of an ECU clearing system using the Base-based Bank for International Settlements as a central clearing point for ECU accounts. Such a clearing system, if it is introduced, would be an important sign that the ECU is slowly coming of age as an international currency.

Why has the ECU enjoyed such a conspicuous success when efforts to create a market in another composite currency, the Special Drawing Right (SDR), are generally thought to have failed? Like the SDR, the ECU is an abstract concept — you cannot spend it in the

shops. That was a drawback for the SDR and on the surface the same should apply to the ECU as well.

There are two important differences, however. The SDR contains a significant dollar element in its weighting. That means it is not particularly valuable as a counterpart to the U.S. currency in exchange market.

At the same time EEC institutions are active depositors of ECUs in the commercial banking system. The flow of such deposits into the market is thus more consistent and deep.

When a sudden fashion for SDR deposits emerged about three years ago banks were relying heavily on one single source, Shell (Zurich), which turned out rather capricious in its choice of currency.

Added to this is strong ideological support for the ECU from some European governments, notably those of Italy and France. This has led to a lot of official sympathy and encouragement for the development of an ECU market.

All this would, however, have little impact without some genuine market demand for ECUs both from the perspective of investors and borrowers. Here the ECU does offer a unique advantage. As a basket currency it includes some of the weaker European currencies, which makes it less vulnerable to appreciation (which the borrowers like) and gives it a higher rate of interest than some other dollar alternatives such as D-marks, yen and Swiss francs (which investors like).

As a result, the steady flow of ECU bond issues over the past year has been readily absorbed by the market despite declining yields. By the end of last December, according to the Luxembourg Stock Exchange, the average weighted yield of ECU bonds had fallen to 11.89 per cent from 12.3 per cent at the start of 1983. Recent new issues have carried yields of about 10½ per cent.

A glance at relative borrowing costs for several currencies shows quickly why the ECU has become fashionable for borrowers. According to figures compiled by Istituto Bancario San Paolo, di Torino the cost to a French borrower of raising

dollars was 30.81 per cent per annum for the four years to April 1983 after interest and the depreciation of the franc is taken into account. The cost of ECUs was only 16.58 per cent. It would have been marginally cheaper to borrow D-marks, Swiss francs or French francs but all these currencies were much more volatile (except for the French franc which would have been hard to obtain internationally in any significant amounts).

For Italian borrowers the picture is much the same, with the cost of ECUs only 17.8 per cent compared with 31.81 per cent for dollars.

Borrowers in France and Italy are in fact those for whom the ECU makes the most sense. The risk of currency losses is reduced because their own currencies are part of the basket.

### Broader range

As a result, the ECU bond market has tended to be dominated by such issues as well as EEC institutions such as the European Investment Bank. As the acceptability of the currency has grown over the past year a broader range of issues has come to the fore, however. ECU bonds have been arranged for the World Bank, for WestLB and Bank of Tokyo among others, while South Africa recently launched an ECU 40m bond through Credit Commercial de France.

Yet a major hurdle remains to be overcome on the pleasure side, which is still heavily dependent on investors in Belgium and Luxembourg. According to one senior Belgian banker such investors buy about 70 per cent of all paper issued. By tradition such investors are highly interest rate conscious. They also mistrust their own currency, ECUs which were created by European institutions or their doorstep are a logical investment medium.

Large-scale international investors are still very cautious about the ECU, however, and the main Belgian banks which issue ECU bonds operate a queuing system to prevent the market from becoming saturated. A house of contention is that French banks, the other major issuers, are unwilling to join this queuing system,

### The ECU basket

DM 0.333
\$ 0.0888
FFr 1.15
L 100
Fl 0.226
RFr 3.28
Lufr 0.14
Dkr 0.217
£ 0.0978

### ECU 1

which has led to frayed tempers on both sides.

Only if the ECU market were to attract a much broader range of investors would the need for a queueing discipline and one problem here is the fear that ECU issues are not as readily tradable in the secondary market as those in other currencies which have been long established in the bond markets. The other problem for the sophisticated investor is that if holding an ECU bond reduces the risk of currency loss it also reduces the opportunity of currency gain.

Even last year the ECU accounted for only 2.8 per cent of total new issues in the international bond market. Swiss franc bonds and private placements accounted for 18.8 per cent, giving that currency a much more important role as a counterweight to the dollar. The fact remains that many investors buy bonds with an eye to currency appreciation and these investors have an in-built resistance to a compromise, which means currency appreciation is not easy to maintain.

The growth of ECU business in recent years must in part be explained by the general confusion of currency markets. Traditional alternatives to the dollar such as the D-mark have themselves been weak and from that point of view the ECU has been an alternative for investors looking for the D-mark as much as for the dollar.

What remains to be seen is how the ECU market will respond to the reversal of the dollar's fortunes that many currency commentators now expect. If the D-mark moves rapidly into the secondary market in ECU investments could dwindle. Then its promoters would face an even harder job in marketing its role as a safe haven for investors' funds.

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Total assets per 31.12.1983	57,900 million DM
Own funds issued in 1983	8,500 million DM
Own funds in circulation per 31.12.1983	28,900 million DM
Total loans outstanding per 31.12.1983	41,600 million DM
— of which long-term loans	32,200 million DM

Preliminary figures from the balance sheet as of 31.12.1983.

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*Handwritten signature: J. J. J. J.*

Handwritten note: "No, in 1984"

INTERNATIONAL CAPITAL MARKETS XI

As competition sharpens, banks take on higher risks

Project financing

MARGARET HUGHES

WITH FEWER and fewer projects getting off the ground the competition for contracts is intense. The financial packages which contractors offer is now often more important than their technical expertise...

sources of project finance. More use is being made of limited recourse financing, where the main security for loans is the future cash flow of the project rather than the borrower's ability to repay...

ment. More usual is limited recourse financing, where recourse to the borrower is still required by the banks during the early stages of the project. On the whole banks still demand recourse to the project operator during the construction period to ensure that the project is both completed and that cost overruns are met...

bankable risks. The sources of funding for projects—limited recourse or not—are essentially export credits, Eurorates finance and aid funds. But banks are being forced to become more innovative in the way they put these together in one package...

Less attractive Export credits, which have traditionally accounted for some 85 per cent of the foreign currency element of projects, are likely to be even less attractive now that the consensus countries have established a matrix of minimum interest rates...

Among the range of alternatives under consideration is funding by pension and insurance funds which are already established in the long-term fixed rate market. Another possibility is establishment by the commercial banks of a consortium bank along the lines of Ausfuhrkredit (AKA) of West Germany...

of fund — for exports to those countries which are liable for the higher consensus rates and in those currencies where the market rates are well below consensus rates. There would be a saving on the cost of the premium for the specific bank guarantee, which is currently 0.6 per cent of the loan value...

lar problem is that bonds are usually repaid in one bullet repayment, whereas the consensus requires that loan repayments are made in semi-annual instalments. But bankers are evolving ways of overcoming these obstacles with a view to financing projects through the bond markets in the very near future...

State agencies obliged to throttle back

THE FINANCIAL predicament of many developing countries has rebounded with a vengeance on the government-backed export credit insurers on whom those countries have traditionally relied for trade finance. Only last month came reports from Tokyo that the Japanese Eximbank, always cautious, had stopped underwriting exports to 25 countries in Latin America, Africa and Eastern Europe...

term credit lines to Mexico, guaranteed a \$124m long-term loan for a communications satellite project in that country, backed sales to the national oil companies of Brazil and Peru and confirmed a \$50m loan for the Yacajata dam on the Argentina-Paraguay border...

To begin with, frequent adjustments of the rates introduces an element of uncertainty, even confusion. Secondly, the system was designed partly to ensure equal and easier access to long-term capital markets, but in some LIRCs these markets scarcely exist...

Export credits

CHRISTIAN TYLER

non-performing loans and bad debts caused by bankruptcies, are understandably shy of extending trade credit to countries where official agencies fear to tread. According to export finance managers in London the banks are also reducing their country lending limits...

Exporters interested in the LIRC option are being told to prove first that they cannot finance their deals on a pure cover basis only—that is, by using the commercial market for their export credit, foregoing bank guarantees and taking out a simple insurance policy against non-payment by the customer...

Political causes of loss—chiefly debt rescheduling or delays in foreign exchange payments—have left agencies with abnormally high exposure in risky markets. Three-quarters of the 200 countries in which the ECGD has exposure are in the lower two of its four creditworthiness categories, and country limits are being ever more carefully set. Nearly 60 per cent of the ECGD's estimated \$2bn-worth of commitments is with "risky" and "high-risk" markets...

A disincentive of a different kind for trade lenders—and borrowers too—came last autumn when the members of the Organisation for Economic Co-operation and Development (OECD) decided to reduce the gap between subsidised credit rates and commercial rates of interest. Responding largely to U.S. pressure, the export credits "consensus" agreed to start phasing out the subsidy element which still costs the British taxpayer, for example, some £500m a year...

Another idea now being discussed between the ECGD and the banks is that the traditional risk-sharing ratio might be changed. The banks normally carry the risk on the first 15 per cent of a contract, and get 100 per cent backing for the 85 per cent that remains. Now the ECGD is suggesting that it will entertain risk in difficult markets provided that the bank or the exporter will take, say, another 10 or 20 per cent of the risk ECGD is virtually unique among credit insurers in giving 100 per cent guarantees, but the policy may be changing...

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INTERNATIONAL CAPITAL MARKETS XII

New formula provides banks with greater security

World Bank co-financing

IN AN ATTEMPT to encourage commercial bank lending to developing countries the World Bank a year ago launched a new co-financing scheme whereby it participates directly in a syndicated commercial bank loan. Previously co-financing of projects involved two parallel loans, one from the World Bank and another from commercial banks. Now the World Bank will continue to make its direct loan for the project but will also participate in the commercial loan.

financing has had limited success in persuading banks to provide commercial funding for its projects. Some \$7.5bn private-sector funds have been provided for World Bank projects over the past 10 years. Even so, only some 12 per cent of the Bank's projects have private-sector co-financing, while co-financing still only amounts to 1 or 2 per cent of all commercial bank lending to developing countries.

Cautions

As banks have become increasingly cautious in their lending since the onset of the international debt crisis, they have been negotiating with the World Bank to make co-financing a more attractive vehicle for commercial bank lending. Commercial banks have long wanted a cross default clause, but the best they have obtained over the years was a "comfort clause" whereby—at the World Bank's discretion—a default on the commercial loan could cause its loan to be declared in default. In practice this has never happened.

Mr Tom Clausen, president of the World Bank, the new co-financing arrangements amount to one loan not two and thus a default on one lender is a default for all. By providing increased security for commercial banks the overall aim of the new formula is to ensure that developing countries have access to capital markets that might otherwise be closed to them. In addition it provides them with longer maturities than they would normally obtain from commercial lenders. The World Bank also hopes that it helps borrowers get better terms although the commercial banks have made it clear that they will not be offering "cut-price" loans.

The World Bank can participate in the commercial lending in three different ways. It can either participate directly in the later maturities of the loan contributing between 15 and 20 per cent of the private loan to produce significantly longer maturities than normally available in the market. The annual repayments of the principal by the borrower would be made first to the commercial banks until their share of the loan is fully repaid. Then in the later years the repayments would be to the Bank to repay its share. There is also a sell-back clause which allows commercial banks to participate in the later stages of the loan if they wish.

Another alternative would be for contingent participation by the bank in the later maturities of the loan, again to the level of 15 to 20 per cent. This would be used where the borrower makes fixed repayments on a floating rate loan. The World Bank would participate where the maturity had to be extended as a result of an increase in interest rates during the period of the loan, its commitment being to finance the balance outstanding.

Grace period

The first loan to be co-financed according to the new formula was a \$100m syndicated credit for Hungary arranged by Arab Banking Corporation last August in which the World Bank's participation was 15 per cent amounting to \$30m. This loan, along with other World Bank loans for the projects involved, also marked Hungary's debut as a World Bank borrower following Hungary's membership of the Bank in July 1982.

of the loan which had an extra year's maturity. The syndicated loan was split between two projects—one for grain storage and agricultural mechanisation and the other for emission diversification and conservation—with the World Bank also providing a direct loan of \$236m.

The second co-financed loan involving direct World Bank participation was a \$80m (\$36m) commercial bank credit arranged last September by Mitsui Bank for the Thailand telecommunications authority. Financed entirely in yen, this loan had a maturity of 12 years with a five-year grace period, extended to 14 years through the World Bank's participation. The loan was in two tranches with the smaller fixed-rate tranche carrying a margin of 0.3 per cent over the long-term prime rate and the \$5bn floating rate tranche carrying a margin of 0.1 per cent. The World Bank provided \$2bn of the loan, participating in the floating-rate tranche.

Colombia might have expected to obtain easier terms on a loan where the World Bank is providing additional security by its direct participation given that unlike Mexico, which obtained better terms on its new \$3.8bn loan, Colombia has not had to reschedule and is considered to be one of the few good credit risks in Latin America. The fact that it didn't would seem to confirm that the new co-financing will not lead to price cutting on margins.

There are mixed views amongst commercial bankers as to the merits of the new co-financing scheme. Some see the main advantage to be the reduced likelihood of default. Others argue that of a greater advantage of direct World Bank participation is that the Bank is both more experienced and has greater resources available to evaluate and monitor projects. There are also bankers who contend that the changes in the co-financing scheme are more cosmetic than real.

The World Bank meanwhile has high hopes for its new scheme which it is undertaking as a pilot project alongside its existing co-financing scheme. It will only apply to projects which have already been approved by the World Bank so that appraisal of the scheme can be undertaken relatively quickly. It is hoped to undertake projects worth \$1.5bn and 20 such co-financed loans within two years involving total co-financing of some \$2.5bn.

Some bankers also complain that the loan documentation follows World Bank rather than commercial bank procedure and as a result is both slow and cumbersome.

Sub-participation on the increase

Syndicated Credits

MARGOT HEWSON

AFTER DROPPING as much as one quarter of its volume in 1983, the market for international loans has little chance of significant recovery this year. Instead, the trends which emerged in the wake of Mexico's debt collapse in August 1982 are likely to intensify, paving the way for the scope for loan syndications and widening the disparity between so-called quality and lesser borrowers.

Against this gloomy background, the banks have had more than a flutter with floating rate notes and, in an effort to satisfy their desire for lost fees and shorter maturities, are expected to go deeper into the loan sub-participation business. Even taking into account involuntary lending to Latin America last year, the volume of international loans shrank by over \$20bn to \$80.4bn, according to the Organisation for Economic Co-operation and Development (OECD). Morgan Guaranty figures put the total of publicly announced Euro-currency credits with more than 12 months' maturity at almost \$74bn, down from almost \$85bn a year earlier. As for 1984, any impetus to growth will likely be stifled.

True, several developed countries are showing an improving current account trend. Sweden, Denmark, France and Italy, for example, making them even more attractive to asset-hungry lenders. In the Far East the Philippines' woes have yet to tarnish the creditworthiness of neighbouring countries whose economic growth potential is the envy of the Western world. Ambitious oil majors wishing to swallow their competitors will still need to borrow and energy projects themselves will show a healthy appetite for borrowed capital.

Great swathes of the world remain effectively off limits, however, when it comes to new lending. Morocco and most of black Africa, every Latin American country bar two or three, the Philippines: not one of them will become an irresistible prospect again this year. The chances are that others will join the ranks of the reschedulers.

Some creditors are already asking how long Nigeria can manage without restructuring its medium-term debts. Kenya is on some banks' danger lists and others fear the protracted Middle East war will eventually cripple Iraq, which anyway faces a payments bulge in 1985. No one would deny the hard work done to keep the international financial system alive since Mexico's demise. However, for many the knotliest problem

remains: how to deal long term with developing country debt and, in particular, Brazil. While the most successful banks apply the same rules to this conundrum, some others less deeply involved in the syndicated market as a whole will stay out, preferring to concentrate on more traditional activities such as trade financing or domestic business.

So far in 1984 there have been few signs of the smallest players—U.S. and European regional—for example—regarding their confidence and stepping back into loan syndications. As a result, syndicates have become top heavy with lead managers retaining a substantial part of their underwriting, and many expect this trend to continue. Where, three years ago, a marketing bank might have sent out literally hundreds of telexes for a large Euro-credit, the syndication is now a far more discreet affair; targeting is the keynote.

"We shall see far more changes in 1984," commented a leading U.S. eurobanker. "Syndication and sell-down in the market will just be the icing on the cake." As for terms, the law of supply and demand suggests top-notch borrowers could benefit from the scarcity of acceptable risk with longer maturities, and yet tighter interest rate margins. While some would argue banks have already over-stretched themselves in taking any rate of return as long as it is positive, others see little likelihood of shaking off currently high spreads for the likes of Sweden or Ireland.

Such is Ireland's standing in the market that it is trying to negotiate—downwards—the terms of its \$500m 1983 syndicated credit co-ordinated by Citicorp. Most providers paled at the thought of facing a dangerous precedent among similarly attractive sovereign borrowers.

Given the many restraints on the market this year, many observers predict greater use of less-familiar instruments. Arguing that the problems of rescheduling countries might have been far easier to handle had they not borrowed so heavily in the appreciating U.S. dollar, onspecialist forecasts a rise in the volume of loans denominated in European Currency Units and other currencies.

Malaysia has already gone for diversification, with its \$150m Canadian prime-priced credit through Royal Bank of Canada and others. Interest rate swap transactions and bankers acceptance facilities could also enable second-tier borrowers to raise money from otherwise highly selective lenders, while revolving underwriting facilities may help satisfy lenders' demand for shorter-term assets.

The banks' desire to gain flexibility and reduce maturities has led to two distinct developments: a flood of floating rate note issues in January and February, and growing interest in loan sub-participation. General banks, European regional, U.S. savings and loan institutions and Japanese banks are prominent among the many who have leapt aboard the FRN bandwagon. Despite the rapid fall in margins and some greatly extended maturities, a growing number of banks wonder whether they should get into the silent sub-participation business. It is a "hot" area, rather than one of the ad hoc banks which has been around for many years. Sub-participation (the proponents stress this nomenclature, rather than the more familiar "selling on") involves one bank already committed in a deal, usually already signed, inviting another to take a stake in it for less than the full maturity and for less than the full spread specified in the loan agreement.

This enables a bank such as Citicorp, one of the leading lights, to earn fees on loans without having to book the sub-participated amount of assets, thereby increasing its return on portfolio without increasing the burden on the capital/asset ratio. At the end of the day, it falls down to kidding the bank's accountants, was one observer's yet assessment.

The deal already committed in a deal, usually already signed, inviting another to take a stake in it for less than the full maturity and for less than the full spread specified in the loan agreement.

"Asset trading is dependent upon margins staying low while others fear the borrower's wrath, if he finds out. Some keen asset manager would argue it is none of the borrower's business; this is just another way of finding loans, and funding is a matter for the bank to decide."

Advantages of sub-participation from the market's point of view are that it can free large underwriters to go into a new deal, and bring in smaller banks who prefer shorter-term risk. But a major disadvantage is that it, too, is restricted to the loans of better quality borrowers.

While there is a little appetite for swapping Less Developed Countries' debt to suit the geographic look of the portfolio, there is hardly more scope for sub-participating—existing Nigerian, Brazilian or similar debt than there is for syndicating new loans to those countries.

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday March 19 1984



Helping to get buildings up. And rates down. FULLER PEISER

INTERNATIONAL CREDITS

Broken Hill goes mining in the FRN market

BY PETER MONTAGNON IN LONDON

BROKEN HILL Pty, Australia's mining, steel and natural resources concern, is to break new ground in the Euro-markets by using the bond market to finance a major slice of its coal mining project in central Queensland.

For the first time the floating rate note (FRN) market is to be used to provide project finance that is "non-recourse", which means lenders are repaid out of the project's cash flow rather than as a result of any guarantee from the borrower.

Details of the package were unveiled after its signature in Singapore on Friday. The amount has been reduced to \$785m from \$1.135m following the withdrawal of some of BHP's partners.

Table with 3 columns: Date, Previous, Current. Shows BHP Bank bond average for March 1984.

equivalent to the margins on the credit. These start at 16 per cent over London Eurodollar rates and rise in stages to 20 per cent. The life of the package is 12 years and lead managers are Bank of Tokyo, Bank of America, Chemical, Commonwealth Trading Bank of Australia, Continental Illinois, Industrial Bank of Japan, Long Term Credit Bank of Japan, National Australia Bank and National Westminster.

Overall BHP may well have achieved a lower cost on this project by using the FRN market than that which would have applied on a bank credit. While lead managers are assuming the risk, they are providing only a small portion of the funds. The BHP margins are lower than those on another Australian project finance loan signed last week - a \$335m credit for CRA (Argyle) Finance to finance a diamond mine. These margins start at 1/2 per cent but rise to 1 1/2 per cent once the project is completed.

This week should see some developments in Ireland's efforts to renegotiate the terms of its \$500m credit arranged last year. The original terms are now regarded as out of line with the market. The proposal has met with stiff opposition from some banks, however.

EUROBONDS

UBS sets a bear trap for unwary underwriters

BY MARY ANN SIEGHART IN LONDON

A STRANGE thing happened in the Eurobond market last week. A floating rate note from Fiat, the carmaker, which by all accounts should have been difficult to sell - even at a substantial discount - suddenly shot up to a price over par.

The reason was that lead manager UBS Securities had set a "bear trap" in the words of Mr Armin Mattie, its managing director. Those underwriters who had sold bonds in the expectation of being landed with a huge allotment were told on Thursday night that they were to receive no bonds at all before July, at which time they could buy them from the lead manager at a price of 99.

But that was little consolation to those who had to deliver bonds to their buyers. They now have either

to buy the few left in the market at an exorbitant price of about 100%, or they have to persuade the buyers to wait for four months for the bonds.

UBS is sitting on more than \$10m of the \$100m issue and it has apparently come to an agreement with its managers that they are to sell no bonds to the market for delivery before July.

Other banks are understandably unhappy about UBS's behaviour. As one banker said: "You mess up all your underwriters by inviting them into a lousy deal in the first place and then you lead them up the garden path by not giving them any bonds."

Bankers have to admit, however, that Mr Mattie is perfectly within his rights. During the selling period

he refused to give underwriters "protection" by confirming in advance what percentage of their underwriting commitment they would receive. And Mr Mattie claims that the underwriters are at fault for dumping the bonds in the first place.

CSFB, Goldman Sachs and Morgan Stanley were nominated as the three "co-ordinators" with CSFB as "global book-runner". Then four regional groups were set up, each with their own lead managers. CSFB, SBC and UBS are selling \$300m in Switzerland, Nomura International has \$75m for the Far East, Deutsche Bank is placing \$125m in Germany, and Morgan Stanley, Goldman Sachs and CSFB have \$300m for the rest of the world. Each of these lead management groups is free to form their own syndicates.

By Friday about a third of the issue had been sold and though the lead managers were trying to keep the price no lower than 98 1/2 there were some bonds in the market at a greater discount.

Another talking point last week was the issue of two bonds from U.S. savings and loan (S&L) institutions backed by collateral of a portfolio of securities held by the S&L to give the deals a triple-A credit rating.

Salomon Brothers launched the first, a five-year bond for the American S&L Association, with 150 per cent collateral provided by securities from the Government National Mortgage Association (Ginnie Mae), which have the "full faith and credit" pledge of the U.S. Government. The issue was so popular it was increased from \$100m to \$125m.

Goldman Sachs followed this with a \$100m bond on the same terms for North East Savings. This too was well-received, trading with-

in its selling concession at a 1 point discount. While a 1 point discount may normally be considered no more than respectable, it is not far short of miraculous in present market conditions. The fixed-rate dollar primary market has been unresponsive to new issues.

In the secondary market, however, prices rose slightly on the week, not through any great buying pressure, but possibly due to a feeling among professionals that having fallen four points in as many weeks, the benchmark U.S. Treasury long bond must recover a bit of steam.

The sterling market, meanwhile, is steaming ahead, helped by a base rate cut and a budget forecasting low inflation.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrowers, Amount, Maturity, Av. life, Coupon, Price, Lead Manager, Other yield. Lists various international bond issues.

\* Not yet priced. † Final terms. \*\* Placement. ‡ Floating rate note; coupon is spread over 6-month Libor. (a) Spread over 6-month bid and offered rates. (b) Spread over 3-month Libor. † With warrants. ‡ Dual currency issue repayable in dollars. x Coupon set every 5 years. © Minimum. Note: Yields are calculated on ARB basis.

Advertisement for DSM NAAMLOZE VENNOOTSCHAP DSM. Includes logo, company name, and a list of international banks and financial institutions.

Advertisement for N.V. NEDERLANDSE GASUNIE. Includes logo, company name, and a list of international banks and financial institutions.

Vertical text on the left margin: Security, Participation, Increase, ING, TE NOTES, Limited in selected issues, CASH, Allen.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Credit market sees deficit cut plan as false dawn

AFTER A brief flicker of life late on Thursday following better than expected MI figure and news from the White House of an agreement with Republican Congressional leaders on a \$150bn three-year deficit cutting package, bond prices had plunged to new lows by the close on Friday.

While the equity market rallied strongly in hectic Friday trading, the credit markets took another—and deeper—look at what was on offer and found it lacking.

Table with 2 columns: U.S. INTEREST RATES (%), Week. Rows include Fed funds weekly average, 3-month T-Bills, 3-month Treasury Bond, AA Industrial.

Short-term interest rates were again on the rise, leading to talk of an impending prime rate increase. Another rash of extremely strong economic indicators sustained credit market jitters.

Short-term interest rates were again on the rise, leading to talk of an impending prime rate increase. Another rash of extremely strong economic indicators sustained credit market jitters.

The credit market had already made up its mind that the Reagan deficit package was a false dawn when Dr Henry Kaufman, Salomon Brothers' chief economist, hammered the message home in his Weekly Comments on Credit, headlining them "False Hope."

Paul Taylor

Loews buys 2.7m shares in St Regis for \$100m

BY WILLIAM HALL IN NEW YORK

LOEWS, the U.S. hotels, cigarettes and insurance group, has paid about \$100m for an 8.5 per cent stake in St Regis, reviving speculation that the U.S. forest products company is ripe for take-over.

Mr Haselton said: "We are most aware of Tisch's reputation as an astute investor and a businessman of integrity, and we welcome his interest in our company."

Hudson's Bay reduces loss

By Robert Gibbins in Montreal

HUDSON'S BAY Company, Canada's largest retailing group which is controlled by Thomson family interests, reports an operating loss of C\$17.9m (US\$14m) for the year ended January 31, against a loss of C\$122m in the previous year.

Dow Chemical completes transfer of Banking stake

BY JOHN WICKS IN ZURICH

DOW CHEMICAL, the second biggest U.S. chemical company, has completed the transfer of its 76 per cent stake in Dow Banking of Zurich, to a special holding company.

Banco di Roma well ahead

By Alan Friedman in Milan

BANCO DI ROMA, Italy's fifth largest bank and one of the top three banks controlled by the IRI state holding group, reported a 17 per cent rise in net profits for 1993, to L24.6bn (€12.3bn).

Slight recovery for Swire Properties

BY ROBERT COTTELL IN HONG KONG

SWIRE PROPERTIES, the Hong Kong property developer which is a quoted subsidiary of the Swire Pacific group, has announced net profit for 1993 of HK\$390.4m (US\$50.4m), up 4.6 per cent from HK\$370m in 1992.

New range will benefit Daimler heavy truck plant

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

DAIMLER-BENZ, the West German vehicle manufacturer, expects its total commercial vehicle production this year to remain close to the 173,500 units for 1993.

Lloyds Bank International eastern posts

The following appointments have been made within LLOYDS BANK INTERNATIONAL: Mr D. Hamilton has been appointed manager, Alexandria branch, following the retirement of Mr R. McWatt.

INTERNATIONAL APPOINTMENTS

Dr Hans Berger has been appointed chairman of the board of the civil engineering subsidiary.

EUROBOND TURNOVER

(nominal value in \$m)

Table with 2 columns: U.S. \$ bonds, Euro. Rows include U.S. \$ bonds, Euro.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS

Table with 4 columns: Issued, Bid, Offer, Yield. Rows include Alaska Housing, Australia, Canada, etc.

RAISING RATE

Spread Bid Offer Cdn Cdn Cdn

Table with 6 columns: Spread, Bid, Offer, Cdn, Cdn, Cdn. Rows include BNL Int. 5.90, Barclays O/S 1.5 2004, etc.

CONVERTIBLE BONDS

Denominated in dollars unless otherwise indicated. Chg day=Change on day. Cvt. First date for conversion into shares.

Table with 6 columns: Cvt. Cvt. Cvt. Cvt. Cvt. Cvt. Rows include BNL Int. 5.90, Barclays O/S 1.5 2004, etc.

Neste Oy Floating Rate Notes Due 1994. Advertisement for Morgan Guaranty Ltd, Banque Paribas, Citicorp Capital Markets Group, Credit Suisse First Boston Limited, Kansallis-Osake-Pankki, Mitsubishi Finance International Limited, Nomura International Limited, Salomon Brothers International Limited, Manufacturers Hanover Limited, Chase Manhattan Capital Markets Group, Credit Commercial de France, Hill Samuel & Co. Limited, Merrill Lynch Capital Markets, Morgan Stanley International, Postpankki, and Union Bank of Finland Ltd.

FT INTERNATIONAL BOND SERVICE. Advertisement containing detailed bond market data, including U.S. Dollar Straights, Eurobond Turnover, Raising Rate, and Convertible Bonds.

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UK COMPANY NEWS

Offer for sale puts £14m valuation on Connells

BY ALISON HOGAN

HOME COUNTIES based estate agents Connells is being brought to a full listing on the Stock Exchange by Kleinwort Benson through the offer for sale of just over 3m shares at 120p per share which prices the company at £3.6m.

comment

With record instructions and sales in the first couple of months, Connells could ask for no better background to its launch on the market than a budget which reduces stamp duty and decision by the Building Societies Association to cut mortgage rates by 1 per cent.

Mark Meredith looks at James River's first step into paper markets outside the U.S. Flowing into European waters

James River, fast becoming one of the largest paper companies in the U.S., has made its first exploratory step into the European market.

This past week it accumulated a majority shareholding of 62.7 per cent in GB Papers, a small and independent producer of specialty paper products based at Guardbridge, near St. Andrews in Fife.

Pre-tax profits last year were \$94.7m, net income has grown from \$14.7m in 1979 to \$55.1m.

GB Papers is about one-tenth the size of some of the UK's large producers like Bowaters or Wiggins Teape. Like the dwindling number of independent and non-integrated British paper companies (companies which do not make their own pulp), it has moved into highly specialised product areas of the printings and writings sector which are less attractive to big volume producers.

The Culter Mill, near Aberdeen, was closed and sold off, energy savings brought in cutting costs by 15 per cent and a modest capital spending programme brought in to begin to install computerised controls.

Most important, Dick and GB management simplified the product range to cut out loss-makers. According to Mr Dick, the combination of pulp price increases and the need for further capital investment in computerised controls made GB vulnerable.

Robertson Research full listing

Robertson Research, which provides geological and engineering services to the oil, gas, coal, petroleum, minerals and coal industries, is coming to the market for a full listing to further its prospects of expansion and growth.

Department by Thursday, March 22. Dealings are expected to begin on March 29, the day after letters of acceptance are despatched.

comment

Robertson Research is essentially a people business and has built up a formidable team of geologists, geophysicists and other experts to provide a wide range of consultancy services.

comment

James River is now among the top ten paper producers in the U.S. Its strength has been in the specialist paper market for products like paper cups and plates as well as bookbinding and sanitary products and packaging.

formdesign plc advertisement including share price (£114p), authorised share capital (£750,000), and contact information for Albert E. Sharp & Co.

Formdesign forecasts £330,000 advertisement detailing company performance and financial outlook.

CITICORP OVERSEAS FINANCE CORPORATION N.V. advertisement for ordinary shares of 50p each.

PSA FINANZIARIA ITALIA SpA advertisement for LIRE 115,000,000,000,000.

F.T. Share Service advertisement listing various stocks and services.

Today's Rates 10 1/4% - 10 3/4% advertisement for 3i Term Deposits.

FINANCIAL TIMES STOCK INDICES table showing various market indices like Government Secs, Fixed Interest, Industrial Ord, etc.

BOARD MEETINGS table listing dates for various companies like Anglo-African Finance, Arbutnot Govt Securities, etc.

CREDIT NATIONAL advertisement for floating rate notes.

RECENT ISSUES

Table of recent stock issues with columns for issue price, amount, and stock price.

FIXED INTEREST STOCKS

Table of fixed interest stocks with columns for issue price, amount, and stock price.

"RIGHTS" OFFERS

Table of rights offers with columns for issue price, amount, and stock price.

PENDING DIVIDENDS

Table of pending dividends with columns for date, amount, and stock price.

CREDIT COMMERCIAL DE FRANCE (SECURITIES) LIMITED advertisement for Euro Bonds and Floating Rate Notes.



AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices March 16

Main table of American stock exchange closing prices, including columns for stock names, prices, and changes. Includes sub-sections like 'Continued on Page 22'.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Main table of New York stock exchange closing prices, including columns for stock names, prices, and changes. Includes sub-sections like 'Continued on Page 20' and 'CLASSIFIED ADVERTISEMENT RATES'.

CLASSIFIED ADVERTISEMENT RATES. Table with columns for Advertiser, Per Column, and Single Column. Includes rates for Commercial & Industrial, Residential Property, etc.



WORLD STOCK MARKETS

OVER-THE-COUNTER Nasdaq National Market closing prices

Table of over-the-counter stock prices including columns for stock name, sales volume, and price changes. Includes sub-sections like 'A-F', 'G-L', 'M-P', 'Q-T', 'U-Z'.

Closing prices March 16

Table of closing prices for various international markets including Australia, Canada, France, Germany, Hong Kong, Japan, Norway, and Sweden.

CANADA

Table of Canadian stock market data including 1983-84 and March 16 prices for various companies.

NORWAY

Table of Norwegian stock market data including 1983-84 and March 16 prices.

HONG KONG

Table of Hong Kong stock market data including 1983-84 and March 16 prices.

AMERICAN STOCK EXCHANGE CLOSING PRICES

Table of American stock exchange closing prices for various sectors and individual stocks.

Continued on Page 27

Continuation of American stock exchange closing prices from page 27.

FRANCE

Table of French stock market data including 1983-84 and March 16 prices.

NETHERLANDS

Table of Dutch stock market data including 1983-84 and March 16 prices.

SWEDEN

Table of Swedish stock market data including 1983-84 and March 16 prices.

Handwritten signature 'John White' at the bottom center of the page.

س. ج. واربرگ وشركاه

Copies of this Offer for Sale, having attached thereto the documents specified herein, have been delivered to the Registrar of Companies for registration.

Application has been made to the Council of The Stock Exchange for the Ordinary Share capital of Robertson Research plc ("the Company") to issue and now being issued to be admitted to the Official List. This Offer for Sale includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries. The directors of the Company have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein, whether of fact or of opinion. All the directors of the Company accept responsibility accordingly.

The Application List for the Ordinary Shares now offered for sale will open at 10 a.m. on Thursday, 22nd March, 1984 and may be closed at any time thereafter.

The procedure for application and an application form are set out at the end of this Offer for Sale.



# Robertson Research plc

## Offer for Sale

by

S. G. Warburg & Co. Ltd.

of

2,564,365 Ordinary Shares of 10p each  
at 160p per share  
payable in full on application

Share capital	
Authorised £1,600,000	Issued and now being issued fully paid £1,225,000
in Ordinary Shares of 10p each	

The Ordinary Shares now offered for sale rank in full for all dividends hereafter declared or paid except for the special dividend already declared in respect of the year ending 31st March, 1984.

**Indebtedness**  
At the close of business on 24th February, 1984 the Company and its subsidiaries had outstanding bank overdrafts of £683,000 and term loans of £750,000 (all of which are secured by fixed and floating charges on the assets of the Company and certain of its subsidiaries) and hire purchase obligations of £574,000. The Company and its subsidiaries also had certain contingent liabilities totalling £1,591,000 in respect of their own leasing contracts, a third party's leasing contracts and counter-indemnities for bank guarantees given in respect of, inter alia, performance bonds. At the same date one of the Company's subsidiaries had outstanding £77,000 nominal of debentures and the Company and its subsidiaries had outstanding the guarantees of associated companies' lease obligations and overdrafts described in paragraphs D(xii) and D(xiii) of the accountants' report. Save as aforesaid and apart from intra group liabilities neither the Company nor any of its subsidiaries had at the close of business on that date any loan capital outstanding or created but unissued, or any term loans, or any outstanding mortgages, charges, debentures or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or any guarantees or other material contingent liabilities. At the close of business on the same date the Company and its subsidiaries had cash at bank of £1,261,000. For the purpose of this paragraph amounts in currencies other than sterling have been translated into sterling at the rates of exchange prevailing on 24th February, 1984.

**Definitions**  
In this document, where the context permits, the following expressions shall bear the following meanings—  
'the Company' Robertson Research plc  
'the Robertson Research' or 'the Group' the Company and all or any of its subsidiaries  
'RRI' Robertson Research International Limited, a subsidiary of the Company  
'Ordinary Shares' Ordinary Shares of 10p each in the Company  
'Offer for Sale' the offer for sale of Ordinary Shares as described in this document  
'Greenwich' Greenwich Resources Inc.  
'SNC' SNC Enterprises Limited and/or all or any of its subsidiaries

**Introduction**  
Robertson Research provides an extensive range of geological and related technical services throughout the world to organisations engaged in the exploration for and development of hydrocarbons and other minerals and natural resources. The Group's commercial success is founded on the quality of its work, the professional expertise which it has built up over a number of years and the range of services which it offers. Clients include major oil and mining companies, public utilities, national and local governments, government agencies and international development organisations. In addition to undertaking individually commissioned projects, the Group carries out multi-client studies for groups of clients with a common interest in a particular subject.  
Robertson Research has its headquarters in Llandudno, North Wales and has operating subsidiaries in the United States, Canada, Singapore and Australia. The Group has over 650 employees, of whom over 280 are professionally qualified, including 52 with doctorate degrees. Three quarters of the Group's employees are based in the United Kingdom.

**History and development**  
Robertson Research was founded in 1961 and had its origins in an association between Dr. Robert Cummings, who was then a senior tutor in geology at the University of Glasgow, and Dr. William Brown, at that time a petroleum geologist with Shell, together with members and associates of the Robertson family. The Group's original activity was the provision of mineral assessment services for the Robertson family's quarrying interests which were located principally in North Wales. From this base Robertson Research developed its services in connection with mineral exploration in Britain and overseas. In 1970 an Australian subsidiary was established to provide geological and engineering services to the Australian mining industry.  
Robertson Research's involvement with the petroleum industry began in 1962 with the provision of geological services, mainly in Ireland and also in Britain. This experience enabled the Group to establish a leading position in the provision of independent geological services to the North Sea oil and gas industries from the start of North Sea exploration activity in 1964. From these beginnings the range of services has developed to meet the expanding requirements of the petroleum industry, initially in the North Sea and later on a world-wide basis. To widen the Group's geographical coverage and to meet overseas demand for its services, local operations were established in Singapore in 1970, in Calgary in 1972 and in Houston in 1978. The Australian subsidiary extended its activities to include petroleum services in 1971.  
In 1972 the Group undertook a joint project to evaluate petroleum exploration data available on the North West Continental Shelf of Australia with the objective of selling the evaluation to a number of exploration companies interested in the area. The Group has since developed a policy of identifying opportunities for such multi-client studies and reports have been prepared covering many areas which are of interest to organisations engaged in the exploration for and development of petroleum, coal and other minerals. In recent years multi-client reports have accounted for over 25 per cent. of the Group's turnover from petroleum services.  
The Group has expanded its services from exploration geology to include reservoir geology and other techniques applied in later phases of an oilfield's development. Since 1977 Robertson Research has used the specialist skills in reservoir engineering and economic evaluation of its associate, ERC Energy Resource Consultants Limited ("ERC"), on projects where their services are complementary.

**Summary of information**  
The information set out below should be read in conjunction with the full text of the Offer for Sale.

**Business**  
Robertson Research is a British-based group providing a wide range of geological and other technical services relating to the exploration for and development of energy and other natural resources throughout the world. The Group, which has a staff of over 650 and whose clients include governments and major oil and mining companies, operates from headquarters in North Wales and through principal subsidiaries in North America, Singapore and Australia.

**Trading record**

Year ended	Turnover	Profit before taxation
31st March	£000	£000
1979	4,139	338
1980	5,988	507
1981	8,652	879
1982	12,635	688
1983	14,861	997
Six months ended 30th September, 1983	7,114	832

**Forecast for the year ending 31st March, 1984**  
The directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix II, the profit of the Group before taxation for the year ending 31st March, 1984 will be not less than £1.7 million.

**Offer for Sale statistics**  
Offer for Sale price per share 160p  
Number of Ordinary Shares of 10p in issue after the Offer for Sale 12,250,000  
Market capitalisation at the Offer for Sale price £19.6 million  
Prospective earnings per share for the year ending 31st March, 1984\* 9.1p  
Price/earnings multiple based on prospective earnings per share 17.7 times  
Notional gross dividend yield based on net dividends per share of 3p 2.68 per cent.  
Notional dividend cover based on prospective earnings 3.0 times

\*Based on the forecast profit before taxation for the year ending 31st March, 1984 and an estimated tax charge of 40 per cent. A notional 52 per cent. tax charge would result in earnings per share of 7.2p and a prospective price/earnings multiple of 22.2 times. These tax charges take no account of the proposed taxation changes announced by the Chancellor of the Exchequer in his Budget statement on 15th March, 1984.

Whilst petroleum services have become the most significant area of the Group's activity and now account for over 75 per cent. of its turnover, the Group has continued to develop its involvement with other minerals and the water and coal industries, both in the United Kingdom and overseas.

In 1975 the Group commenced the design, manufacture and sale of wireline logging equipment in addition to the range of geotechnical instrumentation which it had been producing for the previous 10 years. Since 1980 Robertson Research has devoted considerable resources to developing its capabilities as a contractor for wireline logging and to the manufacture of related equipment.

In 1980 and 1981 Robertson Research acquired direct and indirect interests in non-hydrocarbon mineral prospects in the United Kingdom, Canada and Sudan as a means of participating in their development potential. These interests have since been exchanged for securities of Greenwich, a Canadian mineral exploration and development company listed on The Toronto and Vancouver Stock Exchanges, as a result of which the Group now has a 15.5 per cent. equity holding in Greenwich.

At the end of 1979 arrangements were made with SNC, a Canadian group engaged in engineering design, procurement and construction, primarily to strengthen the Group's financial position. The arrangements involved SNC acquiring existing shares, subscribing for new shares and providing guarantees for some of the Group's borrowings. As a result of these arrangements SNC held a 29 per cent. interest in the Company, a 49 per cent. interest in its Canadian subsidiary and, with an associated company, a 35 per cent. interest in the Company's United States subsidiary. SNC's interests in these subsidiaries were exchanged for shares in the Company in 1983 and, as a result of these transactions and purchases of shares from other shareholders since 1979, SNC had a 45 per cent. interest in the Company's share capital immediately prior to this Offer for Sale. Following the Offer for Sale, SNC will hold approximately 29 per cent. of the issued share capital of the Company, which it has confirmed it intends to retain as a long term investment.

Further details of the Group's relationship with Greenwich and SNC are set out in Appendix IV.

**Business**  
Robertson Research's turnover for the five years and six months ended 30th September, 1983, divided between its principal activities, was as follows—

	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
	£000	£000	£000	£000	£000	£000
Services to the oil and gas industry	2,671	4,200	6,290	9,401	11,557	5,466
Services to the minerals industry	923	1,318	1,910	2,886	2,850	1,131
Wireline logging and other activities	545	470	512	348	454	517
Total turnover	4,139	5,988	8,652	12,635	14,861	7,114

**Directors, officers and advisers**

**Directors**  
Robert Henry Cummings, OBE, BSc, PhD, FGS, FIMM, FInst Pet, FI Min E, MIGeol, (Chairman)  
William Francis Robertson, LLD, (Honorary President)  
William Wilson McBride Brown, BSc, PhD, FGS, FIMM, FInst Pet, (Chief Executive)  
Herbert Roy Bichan, BSc, PhD, FIMM, MIGeol, (Deputy Chief Executive)  
John Thomas Clarke  
Lionel Henry James Cook, CD, FIMechE, CEng, MEIC, PEng, (Non-executive)  
David Gaunt, (Non-executive)  
Alexander Taylor, BSc(Eng), MEIC, MIMechE, PEng, (Non-executive)

all of Ty'n-y-Coed, Llanrhos, Llandudno, Gwynedd, North Wales LL30 1SA

**Joint secretaries and registered office**  
Alexander Macrae Jaffé, MA, FCA  
Royce John Clint, MIAA, MBIM  
Ty'n-y-Coed, Llanrhos, Llandudno, Gwynedd, North Wales LL30 1SA

**Joint auditors and reporting accountants**  
Ernst & Whinney, Chartered Accountants  
Lowry House, 17 Marble Street, Manchester M2 3AW and  
Becket House, 1 Lambeth Palace Road, London SE1 7EV  
Aston, Parkinson & Gadd, Chartered Accountants  
29 Princes Drive, Colwyn Bay, Clwyd, North Wales LL29 8PE

**Solicitors to the Company**  
McKenna & Co.  
Inveresk House, 1 Aldwych, London WC2R 0HF

**Solicitors to the Offer for Sale**  
Slaughter and May  
35 Basinghall Street, London EC2V 5DB

**Stockbrokers**  
Grievson, Grant and Co.  
59 Gresham Street, London EC2P 2DS

**Principal bankers to the Company and receiving bankers to the Offer for Sale**  
Bank of Scotland  
38 Threadneedle Street, London EC2P 2EH

**Registrars and transfer office**  
Regis Securities  
Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ

The Group's trading profit during the period derived principally from its services to the oil and gas industry.

The following table gives an approximate geographical breakdown of the Group's turnover from its principal activities for the six months ended 30th September, 1983—

	United Kingdom and the rest of Europe %	North and South America %	Africa and the Middle East %	The Far East and Australia %	Total %
Services to the oil and gas industry	29	22	11	15	77
Services to the minerals industry	6	3	3	4	16
Wireline logging and other activities	7	—	—	—	7
Total	42	25	14	19	100

**Services to the oil and gas industry**  
Robertson Research has provided technical services in connection with the exploration for and development of hydrocarbons in over 80 countries during the past 10 years. It is, or has been, active in all sectors of the North Sea and in most other major oil exploration and production areas. The Group's clients include the major oil companies, a large number of independent oil companies, governments, government agencies and international development organisations.  
The Group's policy is to provide an extensive range of services to its clients. These services encompass the various phases in petroleum exploration and development described elsewhere in this document, ranging from identification of exploration areas to field development. Services provided in the exploration phases range from regional geological and geophysical interpretation to the biostratigraphic and petroleum geochemical analysis of exploration well samples, sedimentology and conventional core analysis. Services in the development phases include reservoir analysis and conventional and special core analysis. In response to the increase in development drilling in the North Sea the Group has recently established a new core handling and analysis facility in Aberdeen. Some of the techniques used in its services have been developed by Robertson Research in its laboratories.  
Robertson Research undertakes major regional studies on a multi-client basis and these provide a significant proportion of turnover from petroleum services. Exploration studies generally provide a detailed analysis of a region's stratigraphy, the distribution and nature of the oil and gas source rocks and their relationship to known occurrences of oil and gas; development studies examine the geological and engineering characteristics of known oil and gas reservoirs. In its multi-client reports, which are sometimes prepared jointly with other organisations, the Group draws on data provided by participating clients and the non-confidential parts of the Group's data bank. In general, reports are undertaken only when the major part of their budgeted costs of production have been covered by purchase commitments from clients.

# Robertson Research plc

The Group prepares independent evaluations of potential oil and gas fields. These are used, for example, by companies before committing substantial expenditure on exploration or development and by governments before opening an area for bidding or in assessing proposed production programmes. In certain types of petroleum evaluation requiring specialist skills in reservoir engineering, economic evaluation and seismic geophysical exploration, Robertson Research works with ERC and others to complement its own expertise.

As part of its services the Group organises technical courses and provides specialist training for clients' personnel.

## Services to the minerals industry

Over the past 10 years, Robertson Research has provided technical services for many aspects of the exploration for and the assessment and development of mineral resources in over 50 countries. The Group is engaged to identify exploration prospects, undertake, manage or assist in exploration work, assess the extent and quality of mineral reserves, determine the techniques required to exploit commercially any reserves discovered and assess the technical and economic feasibility of development. The Group's public sector clients include international and government development agencies and state and local governments, and its private sector clients range from small to multi-national companies.

The Group's services include geology, geophysical surveys and interpretation, mining engineering, mineral processing and supporting laboratory services for a broad range of minerals including energy resources, industrial raw materials and base and precious metals. Projects on which the Group is currently engaged include the exploration for and development of coal in Africa, Australasia and South America, heavy mineral sands in Egypt, copper, lead and zinc in Canada and in Sudan and Australia. Robertson Research was recently commissioned to produce a series of geological and mineral deposit maps of 22 countries from the Atlantic coast of North Africa to the Arabian Peninsula.

Robertson Research conducts hydrogeological and water resource studies for exploration and production in both developed and developing countries. The Group's environmental services of soil and water analysis are used by local governments and development agencies to identify and control potential hazards in areas planned for development. The Group's minerals division also has an oil and coolant analysis facility for assessing engine wear and pinpointing areas of potential future mechanical breakdown.

## Wireline logging and other activities

The Group designs and manufactures wireline logging systems and provides wireline logging services. Robertson Research's involvement in wireline logging had its beginnings in water exploration programmes but has now expanded into coal and other minerals. In order to establish itself in this high technology field Robertson Research has made a significant commitment to research and development.

The Group has two wireline logging systems which are of advanced design. The larger digital system is generally made available to clients only on a service basis, whereas the smaller analog system is also available for sale. The sondes developed by Robertson Research are primarily for coal, mineral and water exploration, but equipment is being developed to expand its services into shallow on-shore oil and gas exploration.

Following a successful tender for a major wireline logging contract with the National Coal Board (Opencast Executive) in August 1982, the Group is currently the largest non-hydrocarbon wireline logging contractor operating in the United Kingdom. The Group's existing wireline logging activities are being developed into overseas markets and it is currently engaged on contracts in Africa and the Philippines.

The Group's cartographic department has produced its own high quality reports and maps for several years. This has the advantages of strict security, timeliness and the maintenance of high standards. As well as meeting the Group's own requirements, the cartographic department designs and produces reports and promotional literature for other companies.

## Operations

### Access of operations

The Group's headquarters and main technical facilities are in Llandudno, North Wales. Work for petroleum and minerals clients in Europe and the Middle East, and wireline logging work, is carried out through the Group's operating subsidiaries in the United Kingdom. Outside Europe and the Middle East, assignments are carried out largely by the Group's operating subsidiaries in the United States, Canada, Singapore (which also has a representative office in Indonesia) and Australia. For operational reasons, however, some overseas work is handled from the United Kingdom and technical support is provided, where appropriate, from the Group's facilities in Llandudno. Details of the Group's operating subsidiaries are set out in Appendix IV.

The Group's offices in North Wales, Houston and Singapore undertake a full range of laboratory and other supporting technical work for the Group's petroleum services and, together with the offices in Calgary and Sydney, are involved from time to time in the preparation of multi-client studies. Services to the minerals industry are provided principally through the Group's United Kingdom headquarters and the Australian and Canadian subsidiaries. Much of the work for minerals and wireline logging services, however, is carried out directly in the field at the exploration or development site.

### Technical development

Development of the Group's technical capabilities takes place in its laboratories and workshops which also carry out specifically commissioned development projects for clients. The Group's geophysics operations in the United Kingdom and Australia have a continuing programme of software development for the interpretation of non-seismic geophysical data obtained by gravitational, magnetic, electric and electro-magnetic techniques.

### Marketing

Marketing of the Group's services and the identification of opportunities for initiating multi-client projects is undertaken by directors and other members of senior management as well as by the Group's scientists. Much of the Group's business is attracted by its reputation in the industry and existing clients provide a considerable source of new projects. Some projects are obtained through competitive tendering.

### Clients

The Group undertakes a variety of assignments for clients throughout the world. In recent years the increased range of services provided by Robertson Research has widened its customer base and no single client currently accounts for a significant part of its turnover. The Group is increasingly undertaking larger assignments, particularly projects in developing countries funded by government agencies, financial institutions and international development organisations.

### Competitors

The Group has a number of competitors in its various sectors of activity, including universities, government departments, private laboratories, geological consulting groups and companies specialising in wireline logging. The directors believe, however, that few of Robertson Research's competitors in the United Kingdom or overseas can match the range of services it can offer from its own resources.

### Administration

Assignments vary in their scale and type from a few hours' work to projects lasting several years, and from the involvement of a single member of the professional staff to multi-disciplinary teams and the deployment of significant amounts of equipment and resources. The Group is organised into specialist units within each main operating division, which gives it the flexibility to deal with a wide variety of projects. Multi-disciplinary projects are controlled by a project manager who co-ordinates the work of the specialist units and arranges for the provision of any other resources required.

The Group frequently raises bid bonds, bank guarantees and performance bonds as required for its assignments. Cover is obtained for certain overseas assignments from the Export Credits Guarantee Department. Professional indemnity and public liability cover is maintained at a level which the directors consider appropriate having regard to the nature of the Group's business. The Group's work includes the handling of potentially hazardous substances and it maintains health and safety procedures in order to protect employees and the public.

## Directors, management and staff

The Company's board of directors is responsible for the overall control of the Group and for defining its policies. Financial control is exercised through a Finance Committee which reports on a regular basis to the board. RRI is the principal United Kingdom operating company of the Group and its board is responsible for the implementation of Group policy. Directors of the Company are represented on the boards of all the overseas subsidiaries. The Company's directors and other senior executives of the Group, and their responsibilities, are set out below—

### Directors

**Dr. Robert H. Cummings, OBE**, aged 60, has been Chairman of the Company since April 1983. He worked for five years with Shell and from 1948 to 1961 held various academic positions including that of senior tutor in geology at the University of Glasgow. He was a founder member of Robertson Research and became its first Managing Director. He has held several Council positions in the CBI and is a member of the Royal Commission for Environmental Pollution and of the House of Commons All Party Committee for Energy.

**Dr. W. Francis Robertson**, aged 64, is Honorary President of the Company and is a director of Bank of Scotland. He was Chairman of the Company from January 1979 to March 1983. He was awarded an honorary LL.D. by the University of Strathclyde in 1967.

**Dr. William W. McE. Brown**, aged 48, is the Group Chief Executive and Chairman of RRI. He was a founder of the Group's business, having previously worked for Shell. He has an Honours BSc degree from the University of Glasgow and a PhD from the University of Wales.

**Dr. H. Roy Bichan**, aged 42, is Deputy Group Chief Executive and Managing Director of RRI. He joined Robertson Research in 1968 following completion of a doctorate degree in geology and a research fellowship at the University of Leeds. He is the author of several scientific papers and is currently a member of the Council and a Vice President of the Institution of Mining and Metallurgy. Dr. Bichan is non-executive Chairman of Greenwich.

**Mr. John T. Clarke**, aged 37, joined the Group in 1982 and is responsible for corporate finance. He is a non-executive director of Greenwich and of New Court Natural Resources PLC and a non-executive member of the Committee of Management of Family Assurance Society.

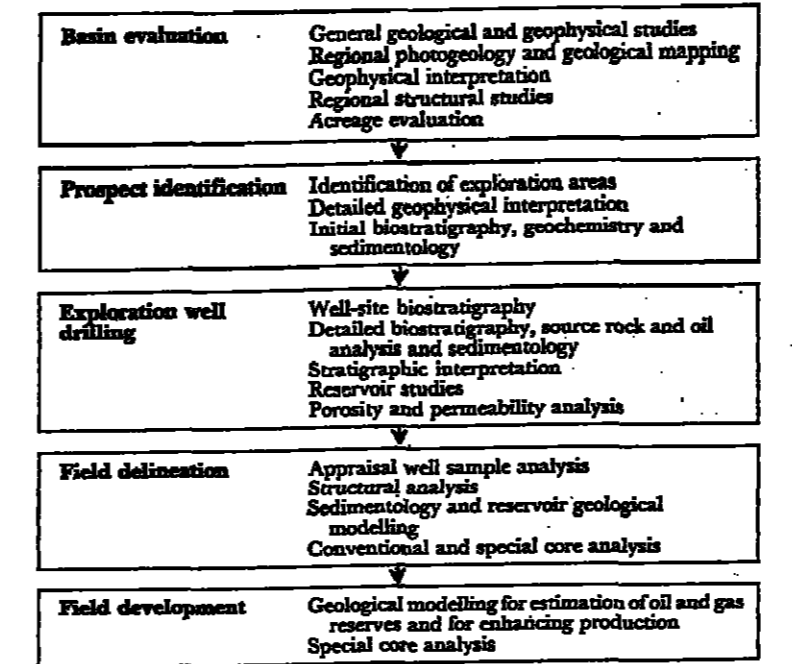
**Mr. Lionel H. J. Cook**, aged 58, is Vice President, Europe, of SNC. He was appointed a non-executive director in 1979.

**Mr. David Casme**, aged 63, is Chairman of R. Gauat and Sons (Holdings) Limited, a Yorkshire-based textile company. He was appointed a non-executive director in 1975.

**Mr. Alexander Taylor**, aged 50, is Executive Vice President of SNC. He was appointed a non-executive director in 1981.

## Techniques used in finding and extracting hydrocarbons

As the scientific techniques and technical support services used in the exploration for and development of natural resources such as petroleum and other minerals have become more specialised, it has become increasingly cost effective for exploration and development organisations to rely on outside specialist expertise. Robertson Research provides geological and related technical services to the petroleum and minerals industries, its services in connection with hydrocarbons (oil and gas) accounting for the largest part of the Group's activities. The diagram below shows various phases in the identification and development of an oilfield and some of the services that Robertson Research provides in respect of each phase.

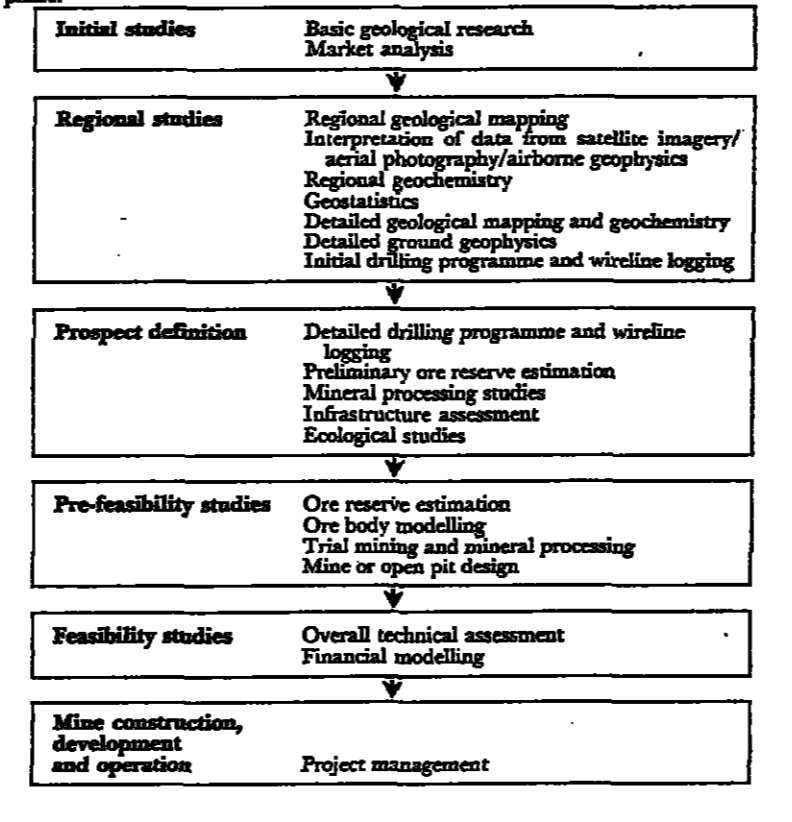


Geophysical data is obtained on rock structures principally through seismic surveys which involve the transmission of seismic waves into rock formations and the detection and measurement of the reflected signals. Biostratigraphy is the analysis of microfossils extracted from rock samples in order to determine the geological age of rocks and the conditions under which they were deposited. The nature and maturity of the organic matter found in rocks is analysed by means of petroleum geochemistry in order to determine their potential to generate hydrocarbons. Sedimentology involves the study of the sedimentary rock layers of the earth's crust, particularly those making up porous or fractured reservoirs which can contain hydrocarbons. Petroleum geologists and geophysicists interpret this information to evaluate the likelihood of a particular basin containing hydrocarbons in commercial quantities and also its potential for drillable prospects.

Exploration wells are drilled to determine whether prospects contain hydrocarbons. If petroleum is discovered, appraisal wells are drilled in order to establish the size and characteristics of the field and whether its economic development is feasible. The porosity of reservoir rocks is a measure of their capacity to contain fluids. A rock's permeability is a measure of its ability to allow hydrocarbons and other fluids to pass through it. Conventional core analysis involves the laboratory measurement of the porosity and permeability of reservoir rock samples and the fluids contained in them. Special core analysis is a technique used to recreate the conditions of pressure, temperature and fluid content experienced within a reservoir in order to make a realistic assessment of fluid flow. Reservoir engineering involves the description and mapping of reservoir rocks and the construction of a geological model for use in field development and the calculation of oil and gas reserves. Reservoir engineering encompasses the techniques used to enhance the recovery of hydrocarbons from a particular reservoir.

## Techniques used in finding and extracting other minerals

Robertson Research provides a wide range of services in relation to the exploration for and development of minerals, including energy resources (such as coal), industrial raw materials (such as limestone and heavy mineral sands), base metals (such as copper, lead and zinc) and precious metals (such as gold). The diagram below illustrates some of the principal phases associated with exploration leading to the establishment of a mine, together with some of the services that Robertson Research provides in respect of each phase.



## Wireline logging

Wireline logging is a technique for obtaining continuous geological and related data by means of electro-mechanical devices, known as sondes, lowered into boreholes by cable. The data is transmitted through the cable and recorded by computerised equipment at the surface. The technique complements or replaces the obtaining of rock core samples from the borehole for laboratory testing.

Wireline logging is used in both the petroleum and, increasingly, the minerals industries particularly in coal exploration. Information on strata properties determined from wireline logging includes data on density, porosity, rock type, clay content, coal seam thickness or quality and the potential and likely volumes of fluid flow.

## Joint company secretaries

**Mr. Alexander M. Jaffé**, aged 58, is Company Treasurer and Joint Secretary. He is a Chartered Accountant and joined Robertson Research in 1975.

**Mr. Royce J. Clint**, aged 50, is Joint Secretary of the Company and a director of RRI. He joined the Group in 1971.

## Other senior executives

**Mr. Ronald D. Butler**, aged 55, joined the Group in 1971. He is Managing Director of Robertson Research (Australia) Pty. Limited.

**Dr. Graham Dolby**, aged 40, joined the Group in 1977. He is a director and General Manager of Robertson Research Canada Limited.

**Mr. Roger W. Goldsmith**, aged 51, joined the Group in 1973. He is a director of RRI and Technical Director of petroleum services.

**Mr. John Hughes**, aged 44, joined the Group in 1978. He is a Chartered Accountant and is Financial Controller of RRI.

**Dr. Peter Ibbotson**, aged 49, joined the Group in 1967. He is a director of RRI and Managing Director of minerals operations.

**Mr. Robert W. L. Oldroyd**, aged 46, joined the Group in 1962. He is a director of RRI, with particular responsibility for petroleum business development and multi-client reports.

**Dr. Pieter J. Rauwerda**, aged 53, joined the Group in 1971. He is Managing Director of Robertson Research (Singapore) Pte. Limited.

**Dr. Michael E. Scrutton**, aged 38, joined the Group in 1969. He is Managing Director of Robertson Research (U.S.) Inc.

**Dr. E. Brian Wolfenden**, aged 51, joined the Group in 1965. He is a director of RRI and Managing Director of petroleum services.

**Dr. Anthony J. Wright**, aged 48, joined the Group in 1966. He is a director of RRI and Managing Director of wireline logging activities.

## Employees

The Group has over 650 staff, of whom over 280 are professionally qualified, including 52 with doctorate degrees. A further 200 are skilled in a technical discipline. Of the total staff approximately 450 are involved in work for the petroleum industry. Robertson Research has a policy of training staff of all grades through a variety of internal and external courses in order to help them develop the more specialised skills required by the Group.

A Staff Council, comprising two directors and the personnel manager of RRI and 12 members of staff, meets monthly and is the main channel of staff communications for United Kingdom employees. Close contact is also maintained with the trade union of which some United Kingdom employees are members. There have not been any industrial disputes within the Group since it was founded and labour relations are good.

The Group operates a contributory pension and life assurance plan and a permanent health insurance plan for eligible United Kingdom employees, and a separate non-contributory executive pension scheme for certain senior executives. Separate schemes are operated for overseas employees. A profit-related bonus scheme is operated for the employees of the United Kingdom subsidiaries with more than 12 months' service. The aggregate annual payment under the scheme amounts to 10 per cent of the consolidated profit before tax of the United Kingdom operating companies after taking account of the allocation under the scheme. Employees in overseas locations participate in benefit schemes appropriate to local circumstances.

The Group has a policy of encouraging the ownership of the Company's shares among management and employees and approximately 30 per cent of the Ordinary Shares in issue after the Offer for Sale will be held by a total of approximately 90 employees (including directors) before taking into account any shares which they may purchase under the Offer for Sale. The directors propose to consider, in due course, the introduction of an executive share option scheme.

## Financial information

### Reasons for the issue and proceeds

The directors believe that the listing of the Company's shares on The Stock Exchange and the issue will assist the development of the Group's business and will facilitate the funding of its growth and, where appropriate, the making of acquisitions. Of the 2,564,365 Ordinary Shares now being offered for sale, 1,000,000 shares are new Ordinary Shares being issued for cash and 1,564,365 shares are being made available as to 1,284,761 shares by SNC and as to the balance by certain other shareholders. The net proceeds of the issue of new shares, after deduction of the expenses of the Offer for Sale, are estimated at £1,068,000.

### Net assets

The consolidated net tangible assets of Robertson Research at 30th September, 1983, as shown in paragraph D of the accountants' report in Appendix I, amounted to £5,405,000. Taking into account the net proceeds of the issue of the new shares, net tangible assets as at that date would be £6,473,000 representing 52.9p per Ordinary Share on the enlarged Ordinary Share capital. This takes no account of the surplus over book value of the current market value of the Group's listed investments and freehold properties.

### Working capital

The directors are of the opinion that, having regard to available bank facilities, cash resources and the net proceeds of the issue of the new shares, Robertson Research will have sufficient working capital for its present requirements.

### Trading record

The following table, based on the accountants' report in Appendix I, summarises the results of the Group for the five years ended 31st March, 1983 and the six months ended 30th September, 1983.

	Year ended 31st March					Six months ended 30th September
	1979	1980	1981	1982	1983	1983
Turnover	£600	£600	£600	£600	£600	£600
Profit before taxation	4,139	5,988	8,632	12,635	14,861	7,114
Profit before taxation	338	507	679	688	997	832

Turnover increased in each of the five years ended 31st March, 1983 and by approximately 260 per cent during this period. This growth primarily reflected increased demand for the Group's services to the oil and gas industries and, in particular, services to oil companies operating in the North Sea.

Profit before taxation for the year ended 31st March, 1981 benefited from buoyant market conditions in the United States and Australia. During the following two years ended 31st March, 1983 turnover and profits from operations in the United Kingdom and the Far East continued to grow. However, Group profits during this period were affected by costs associated with the development of the Group's wireline logging business and by the performance of the North American and Australian subsidiaries, which suffered from a downturn in petroleum and minerals exploration and development activity. The period since 1st April, 1983 has seen continuing progress in oil and gas operations in the United Kingdom and much improved performance by the North American and Australian subsidiaries, partially offset by further development costs of the Group's wireline logging operations.

### Profit forecast

The directors forecast that, in the absence of unforeseen circumstances and on the basis and assumptions set out in Appendix II, the profit of the Group before taxation for the year ending 31st March, 1984 will not be less than £1.7 million. After deducting an estimated tax charge of 40 per cent, earnings would amount to £1.02 million, earnings per share would be 9.1p and the price/earnings multiple at the Offer for Sale price would be 17.7 times. After deducting a notional full tax charge of 32 per cent, earnings would amount to £816,000, earnings per share would amount to 7.2p and the price/earnings multiple would be 22.2 times. These tax charges take into account the proposed taxation changes announced by the Chancellor of the Exchequer in his Budget statement on 13th March, 1984. The figures for earnings per share have been calculated on the basis of 11,258,200 shares, being the weighted average number of shares in issue for the year ending 31st March, 1984 (after taking into account the adjustments set out in paragraph D(vii) of the accountants' report).

### Dividends

The directors have resolved to pay (subject to the completion of the Offer for Sale) by 31st March, 1984 a special dividend equivalent to 1p per Ordinary Share in respect of the year ending on that date to shareholders on the register on 22nd February, 1984, but do not intend to propose or pay further dividends in respect of that year.

If the Company had been a listed company for the whole of the year ending 31st March, 1984 and assuming profits before taxation of £1.7 million, the directors would have expected to recommend net dividends totalling 3p per Ordinary Share in respect of that year (equivalent to 4.3p inclusive of tax credit). A total dividend of 4.3p per Ordinary Share (inclusive of tax credit) would represent a gross yield of 2.68 per cent on the Offer for Sale price and its net cost would be covered 3.0 times by prospective earnings of £1.02 million for the year ending 31st March, 1984.

The directors intend in future years to pay an interim dividend in February and a final dividend in September. It is expected that the first dividend payable after the date of the Offer for Sale would be an interim dividend in respect of the year ending 31st March, 1985 which would be payable in February 1985.

## The future

The directors of Robertson Research believe that the Group's reputation has been built on the twin foundations of the excellence of its work and its integrity as an independent organisation. The Group has grown by combining many skills to meet its clients' requirements and by responding quickly and flexibly to changing opportunities in its areas of activity. The directors believe that these qualities equip the Group for continued growth in the future.

Petroleum services will continue to provide the major part of Robertson Research's turnover and profits. Activities in the North Sea are likely to benefit from an increasing demand for petroleum services in post-exploration phases of oil and gas field operations, such as reservoir geology, conventional and special core analysis and other techniques associated with secondary recovery. The geographical expansion of the Group's petroleum services is expected to include areas where existing exploration and development activity is likely to increase, such as East and West Africa and the Americas, and new areas such as off-shore China. The directors are confident of continued opportunities and demand for multi-client reports.

The Group intends to extend its coal and mineral wireline logging activities to shallow on-shore petroleum exploration, particularly gas exploration in Europe. Demand for the Group's mineral services is to some extent influenced by the level of world economic activity and changes in the prices of coal, industrial minerals and base and precious metals. The prospects for economic recovery are more encouraging now than they have been for several years and the directors expect Robertson Research to benefit from this upturn in activity.

The directors are confident that Robertson Research has the breadth of experience, skills, technical capabilities and financial resources to continue its profitable growth.

## Appendix I

### Accountants' report

The following is a copy of a report to the directors of the Company and the directors of S. G. Warburg & Co. Ltd. made by the joint auditors and reporting accountants:

Ernst & Whinney,  
Becker House,  
1 Lombard Street, London EC3A 3DF.  
15th March, 1984

### The Directors, Robertson Research plc

The Directors,  
S. G. Warburg & Co. Ltd.

### Gentlemen,

#### A Introduction

We have examined the audited accounts of Robertson Research plc ("the Company") and its subsidiaries (together "the Group") for the five years ended 31st March, 1983 and for the six months ended 30th September, 1983. The accounts for the four years ended 31st March, 1983 were audited by Aston, Parkinson & Gould and the accounts for the year ended 31st March, 1983 and for the six months ended 30th September, 1983 were audited jointly by Ernst & Whinney and Aston, Parkinson & Gould.

The following transactions have been reflected in the summarised financial information set out below as they had taken place prior to 1st April, 1978—

(i) Robertson Research Engineering Services Limited ("RRES") commenced trading as a wholly owned subsidiary of the Company on 1st April, 1978. On 9th January, 1978, the Welsh Development Agency ("WDA") acquired 30 per cent of the issued share capital of RRES but, as from 21st December, 1982, the Company acquired half of those shares and RRES became a 75 per cent subsidiary of the Company. On 15th March, 1983, the Company entered into an agreement with the WDA, conditional upon the admission by the Council of The Stock Exchange of the Ordinary Shares of the Company to the Official List, whereby the Company will acquire the remaining part of the issued share capital of RRES not already owned by the Company for a consideration satisfied by the issue, credited as fully paid, of 65,000 Ordinary Shares of 10p each.

(ii) On 19th December, 1983, the Company acquired that part of the issued share capital of Robertson Research (U.S.) Inc. ("RRI(US)") and Robertson Research Canada Limited ("RRC(Canada)") respectively now wholly owned by the Company at that date for an aggregate consideration of £227,200 satisfied by the issue, credited as fully paid, of 225,000 Ordinary Shares of 5p each.

The summarised financial information set out below under the heading "Historical cost accounts" has been derived from the audited accounts of the Group, adjusted as we consider appropriate and on the basis that the Group has been as presently constituted throughout the period. In our opinion that information given, on the basis of the historical cost convention modified by the revision of certain financial properties and items of contingencies, a true and fair view of the profits and source and application of funds of the Group for the five years ended 31st March, 1983 and the six months ended 30th September, 1983 and of the state of affairs of the Company and of the Group as at 30th September, 1983.

The summarised financial information set out below under the heading "Current cost accounts" has been derived from the abridged supplementary current cost accounts of the Group for the two years ended 31st March, 1983, adjusted as we consider appropriate and on the basis that the Group has been as presently constituted throughout those two years. In our opinion that information has been properly prepared in accordance with the historical cost methods set out in the notes to give the information required by Statement of Standard Accounting Practice No. 16. No audited accounts have been prepared for the Group for any period subsequent to 30th September, 1983.

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# Robertson Research plc

## Historical cost accounts

### A Accounting policies

The significant accounting policies of the Group, which have been consistently applied in arriving at the financial information set out in this section of the report, are as follows:

#### (i) Basis of accounting

The accounts are prepared under the historical cost convention modified by the revaluation of certain freehold properties and items of equipment.

#### (ii) Basis of consolidation

The consolidated accounts include the accounts of the Company and each of its subsidiaries made up to 31st March each year and to 30th September for the six months ended 30th September, 1983, after eliminating intra Group trading.

#### (iii) Turnover

Turnover comprises the invoiced value of goods and services supplied by the Group, exclusive of value added tax.

#### (iv) Associated companies

The Group's share of profits of its associated companies is included in the consolidated profit and loss account and its share of post acquisition reserves is included in the consolidated balance sheet.

#### (v) Depreciation

Freehold properties are maintained, as a matter of Group policy, by a programme of repairs and refurbishment such that the residual value of the properties are at least equal to their book value. Having regard to this it is the opinion of the directors that depreciation of the properties as required by standard accounting practice would not be material. Depreciation is provided on other tangible assets mainly on the straight line basis, having regard to their estimated useful lives and expected residual values, at the following rates per annum:

Leasehold improvements	5-40 per cent.
Equipment	10-25% per cent.
Furniture	5-10 per cent.
Motor vehicles	20-25 per cent.

#### (vi) Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for any obsolescence or slow moving items.

#### (vii) Long term contracts

Profits on long term contracts is recognised by accruing profits appropriate to the stage reached on the contract if its outcome is foreseeable prior to completion. Full provision is made for any anticipated losses on contracts in hand.

#### (viii) Research and development

Expenditure on research and development is charged to the profit and loss account in the period in which it is incurred.

#### (ix) Deferred taxation

Deferred taxation is provided on the liability method on short term timing differences and all other material timing differences which are not expected to continue in the future.

#### (x) Foreign currencies

In individual Group companies, transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction; monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling on that date. All exchange differences thus arising are dealt with as part of the result for the period.

#### (xi) Government grants

On consolidation, assets, liabilities and reserves of overseas subsidiary companies are translated at the rate of exchange at the balance sheet date. All translation adjustments arising on consolidation are included in reserves.

#### (xii) Government grants

Amounts receivable in respect of capital based grants are set off against the costs of relevant assets before depreciation.

#### (xiii) Rebates

The Group contracts to give rebates to clients in connection with certain sales of multi-client reports. These rebates may be obtained only as a reduction of the purchase price for other multi-client reports and their contractual availability lapses after a determined period, usually about four years. The value of outstanding potential rebates is assessed at the end of each accounting period and an appropriate provision is made in the accounts in respect of such potential rebates based on the Group's experience of their realisation. The provision in the balance sheet is approximated appropriately between current and deferred liabilities.

## C Profit and loss accounts

The historical cost profit and loss accounts of the Group for the five years ended 31st March, 1983 and the six months ended 30th September, 1983 were as follows:-

Note	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
Turnover	3,139	3,888	8,652	19,625	14,861	7,114
Cost of sales (i)	3,028	3,485	7,774	11,873	12,521	6,319
Operating profit	111	403	878	7,752	2,340	795
Share of profits of associated companies	2	4	1	26	57	57
Profit before taxation	338	407	879	7,778	2,397	852
Taxation (ii)	95	57	265	151	324	304
Profit after taxation	243	350	614	7,627	2,073	548
Extraordinary items (iii)	-	-	47	25	-	70
Profit attributable to members	243	350	661	7,652	2,073	618
Dividends (iv)	23	54	71	79	98	1
Retained profit	220	296	590	7,573	1,975	617
Earnings per share (v)	2.4p	4.3p	5.4p	4.2p	5.7p	4.7p

### Notes on the profit and loss accounts

#### (i) Cost of sales included:-

Note	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
Depreciation	117	148	256	361	508	327
Amortisation	21	26	29	50	67	51
Director's emoluments	55	74	81	130	145	79
Net interest payable	79	132	155	219	285	107
Leasing and hire charges	39	57	105	196	267	119
Gain on disposal of mineral interests	-	-	(144)	(175)	(46)	-

The gain on disposal of mineral interests represents the profit on the sale of those interests, in July 1981, to Greenwich Resources Inc. ("Greenwich") for a consideration of 888,000 together with a maximum of 400,000 common shares without par value in Greenwich ("Greenwich shares") which were to be issued to the Group over three years, subject to the approval of the Vancouver Stock Exchange. The shares were issued as follows:-

Date received	Number of shares	Market value at date issued
Year ended 31st March, 1982	130,000	37
Year ended 31st March, 1983	182,000	132
Six months ended 30th September, 1983	140,000	246
	452,000	435

Greenwich shares were listed on the Toronto and Vancouver Stock Exchanges and are traded in Canadian dollars. The gain on disposal set out above reflects the difference between the book amount and the sum of the cash consideration, the market value of the shares issued on the date received and the market value of the shares still to be issued as recalculated at the end of each relevant accounting period and translated at the exchange rate appropriate at the balance sheet date.

#### (ii) The charge for taxation, which was based on the profits for the period, comprised:-

Note	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
U.K. corporation tax at 52 per cent.	10	(34)	71	181	237	247
Less: relief for overseas taxation	-	-	-	-	50	2
Overseas taxation	10	(34)	71	181	187	245
Associated companies	85	91	195	16	158	45
	95	57	266	197	395	304

#### The charge for U.K. corporation tax for each financial period has been reduced by:-

Note	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
Capital allowances	76	217	226	196	220	(28)
Stock appreciation relief	(4)	-	-	-	-	(24)
	72	217	226	196	220	(52)

The charge for taxation has not been adjusted in the years ended 31st March, 1979 to 1983 to reflect the additional relief for the losses of RRES which would have been available if it had been a wholly owned subsidiary throughout the period.

#### (iii) The extraordinary items represented:-

Note	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
Profit on disposal of premises	-	-	-	25	-	70
Profit on sale of investments	-	-	47	-	-	70
	-	-	47	25	-	140

In the year ended 31st March, 1982, the Group sold all of its shares in an unlisted United States company and in the six months ended 30th September, 1983 the Group sold part of its shareholding in a listed Australian company.

## (iv) Dividends during the period were as follows:-

Preference Shares	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
Ordinary	5	5	5	5	5	1
Deferred	20	51	68	85	102	-
Less amounts waived	23	54	71	88	106	-
	2	2	2	2	2	1
	25	54	71	79	93	1

At 30th September, 1983 dividends proposed in respect of the Participating Convertible Cumulative Preference shares (1,000) and the Ordinary shares (1,020,000) for the year ended 31st March, 1983 had not been approved or paid.

(v) The earnings per share for the five years ended 31st March, 1983 and the six months ended 30th September, 1983 are based on the profit after taxation and before extraordinary items in each period and the weighted average number of shares in issue as follows:-

Note	Year ended 31st March					Six months ended 30th September 1983
	1979	1980	1981	1982	1983	
Profit after taxation	1079	1800	1981	1982	1983	983
Weighted average number of equivalent Ordinary shares of 10p in issue	10,005,000	10,341,252	11,250,000	11,250,000	11,250,000	11,250,000

The weighted average number of Ordinary shares in issue has been adjusted from the beginning of the period to reflect the transactions set out in paragraph (vi) below. No account has been taken of the new Ordinary shares of 10p each to be subscribed and offered for sale to the public, or the net proceeds therefrom.

## D Balance sheets

The historical cost balance sheets of the Company and the Group as at 30th September, 1983 were as follows:-

Company	Year ended 31st March					Group
	1979	1980	1981	1982	1983	
Fixed assets	1,618	1,618	1,618	1,618	1,618	1,618
Freehold properties	1,045	1,045	1,045	1,045	1,045	1,045
Leasehold improvements	219	219	219	219	219	219
Equipment and furniture	4,955	4,955	4,955	4,955	4,955	4,955
Motor vehicles	198	198	198	198	198	198
Investments	-	-	-	-	-	-
Current assets	1,756	1,756	1,756	1,756	1,756	1,756
Stocks and work in progress	1	1	1	1	1	1
Debtors	4,219	4,219	4,219	4,219	4,219	4,219
Bank balances	-	-	-	-	-	-
	1	1	1	1	1	1
Current liabilities	22	22	22	22	22	22
Creditors	12	12	12	12	12	12
Proposed dividends	103	103	103	103	103	103
Bank overdrafts	137	137	137	137	137	137
Net current assets (liabilities)	(136)	(136)	(136)	(136)	(136)	(136)
Total assets less current liabilities	1,620	1,620	1,620	1,620	1,620	1,620
Loss capital	-	-	-	-	-	-
Deferred liabilities	1,620	1,620	1,620	1,620	1,620	1,620
Total assets less liabilities	1,125	1,125	1,125	1,125	1,125	1,125
Called up share capital	495	495	495	495	495	495
Reserves	1,620	1,620	1,620	1,620	1,620	1,620

### Notes on the balance sheets

#### (i) Tangible assets of the Group comprised:-

Note	Cost or valuation		Net book amount
	1983	1982	
Freehold properties	1,045	1,045	1,045
Leasehold improvements	219	219	219
Equipment and furniture	4,955	4,955	4,955
Motor vehicles	198	198	198
	6,395	6,395	6,395

The freehold properties included properties which were independently valued at £355,000 on 17th April, 1979, on an open market basis with vacant possession. Subsequent additions to freehold properties are shown above at their aggregate cost of £692,000.

Certain items included in equipment and furniture have been revalued as follows:-

Date of valuation	Value	Book value at date of valuation	Net book amount
1st April, 1978	Independent professional valuers	Existing use	516
31st March, 1980	Independent professional valuers	Depreciated replacement cost	123
31st March, 1983	Directors	Depreciated historical cost*	226
			873

\*These items had previously been written off on purchase.

#### (ii) Investments in subsidiaries comprised:-

Note	Company		Group
	1983	1982	
Shares at cost	75	616	691
Advances and amounts owing by subsidiaries to the Company on current account	96	46	142
	101	662	763
Less: Share of post acquisition reserves	-	-	-
	101	662	763

#### (iii) Investments comprised:-

Note	Company		Group
	1983	1982	
Listed on recognised overseas stock exchanges (Group market value £3,254,000)	75	616	691
Associated companies	96	46	142
Less: Share of cost	-	-	-
Less: Share of post acquisition reserves	-	-	-
	101	662	763

#### (iv) The Group's shares in Greenwich have been acquired as follows:-

Note	Number of shares		Book amount
	1983	1982	
Part of consideration for sale of mineral interests (paragraph C (i))	400,000	435	37
Escrow shares released (see below)	30,000	-	-
Shares still held in escrow (see below)	120,000	-	-
Consideration for sale on 27th April, 1983 of 354,687 ordinary shares in Minex Developments P.L.C. ("Minex")	1,458,748	188	188
	2,008,748	623	623

In July 1981, the Group acquired from a director of Greenwich through R.R. Canada, 150,000 Greenwich shares, which were then held in escrow, for a consideration of £31,500 of which 30,000 were released from escrow prior to 30th September, 1983. The remaining 120,000 shares were then still held in escrow and could not be traded on the Toronto or Vancouver Stock Exchanges until they were released. In December 1983, a further 37,500 shares were released, leaving 82,500 shares still held in escrow.

The shares acquired as consideration for the sale of the mineral interests are included at the market value of the shares on the dates when they were issued. The book amount of the shares acquired as consideration for the sale of the mineral interests in Minex represents the original cost to the Group of those shares.

As an additional part of the consideration for the sale of the mineral interests to Greenwich, the Group received 72,937 share warrants of Greenwich. The warrants carry the right, exercisable until 26th April, 1984, to purchase one Greenwich share at a price of £83.00 per share for every two warrants held.

At 30th September, 1983, the Group's shares and warrants in Greenwich, other than those then held in escrow, had an aggregate market value of £3,195,000.

The other listed investment had a market value at 30th September, 1983 of £58,000.

(v) Group credits included £212,000 in respect of the current portion of the provision for potential rebates (paragraph B (iii)) and £77,000 in respect of the issued debenture stock referred to in sub-paragraph (ii) below.

#### (vi) Bank overdrafts amounting to £609,000 were secured.

#### (vii) Loan capital comprised:-

Note	Company		Group
	1983	1982	
13 per cent. debenture secured on the assets of a subsidiary repayable in ten equal half yearly instalments commencing 1st September, 1983	250	250	500
Secured term loan repayable £150,000 on 31st July, 1986	500	500	1,000
£150,000 on 31st July, 1987 and £200,000 on 31st July, 1988	750	750	1,500

#### (viii) Deferred liabilities comprised:-

Note	Company	
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WORLD STOCK MARKETS

Table of stock market indices for New York, London, and other major markets. Includes columns for indices like Dow Jones, Nikkei, and various regional indices with their respective values and changes.

Table of over-the-counter Nasdaq National Market closing prices. Lists various stocks such as Intel, Microsoft, and others with their current prices and daily changes.

THE WEEK IN THE COURTS

Postponing the privacy question

EVERYBODY recognises that privacy must be protected. Everybody believes in freedom of the press. But there remain areas of perpetual conflict between the need to protect privacy and the need to maintain this freedom. The Court of Appeal's decision last week in Francombe and another v Mirror Group Newspapers Ltd and others...

Accountants set up expert witness team for disputes

TOUCHE ROSS, the City accounting firm, is offering a new service - forensic accountancy. This might be defined as accountancy in the service of the law. Accountants have long found themselves involved in litigation as expert witnesses or advisers...

Robertson Research plc

Procedure for application Requirements for application 1. Applications (other than special employee applications) must be made on the Application Form overleaf and must be for a minimum of 200 shares...

Application Form The Application List for the Ordinary Shares now offered for sale will open at 10.00 a.m. on Thursday, 22nd March, 1984 and may be closed at any time thereafter. This Application Form, when completed, must be lodged with or posted to Bank of Scotland, New Issues Department, P.O. Box 267, 38 Threadneedle Street, London EC2P 2EH...

Copies of this Offer for Sale with Application Forms may be obtained from: S.G. Warburg & Co. Ltd., 30 Gresham Street, London EC2P 2EE. Grieverson, Grant and Co., Leith House, 45-57 Gresham Street, London EC2V 7EH.

2. The Offer for Sale and the acceptance of applications is conditional on the whole of the Ordinary Share capital of the Company, issued and now being issued, being admitted to the Official List of The Stock Exchange not later than 28th March, 1984. Money collected in respect of applications will be returned if such condition is not satisfied and, in the meantime, will be retained by Bank of Scotland in a separate account...

Application Form (continued) including sections for 'Number of shares for which application is made', 'Amount', and 'Signature' with corresponding fields for name, address, and company details.

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trst, Abbey Unit Trst, Abbey Unit Trst, etc., with columns for name, type, and other details.

Table listing various unit trusts such as Abbey Unit Trst, Abbey Unit Trst, Abbey Unit Trst, etc., with columns for name, type, and other details.

FT UNIT TRUST INFORMATION SERVICE

Main table listing unit trusts with columns for Name, Type, and other details. Includes sections for Crown Unit Trust Services Ltd, Barlington Unit Trust Mgmt Ltd, etc.

Table listing various unit trusts such as Abbey Unit Trst, Abbey Unit Trst, Abbey Unit Trst, etc., with columns for name, type, and other details.

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INSURANCES—continued

Table listing insurance companies and their details, including names, addresses, and contact information.

F.T. CROSSWORD PUZZLE No. 5370

Crossword puzzle grid with clues and numbers. Clues include: 1 Job backstage for Soames Forsyte? (8-3), 7... retrograde step in ballet for the fool (3), etc.

OFFSHORE & OVERSEAS—continued

Table listing offshore and overseas financial services, including names, addresses, and contact information.

INSURANCES

Table listing insurance companies and their details, including names, addresses, and contact information.

DOWN

- 1 Standard means of churning cheese (8)
2 g Olive on the pitch—alack reserve? (3-5)

MONETARY MARKET TRUST FUNDS

Table listing monetary market trust funds with columns for name, type, and other details.

MONETARY MARKET BANK ACCOUNTS

Table listing monetary market bank accounts with columns for name, type, and other details.

MONETARY MARKET BANK ACCOUNTS

Table listing monetary market bank accounts with columns for name, type, and other details.

John White

INSURANCE & OVERSEAS MANAGED FUNDS

Main table containing financial data for various insurance and overseas managed funds, including columns for fund names, values, and performance metrics.

OFFSHORE AND OVERSEAS

Table listing offshore and overseas managed funds with their respective details and performance data.

NOTES
These are in general only indicative and not intended to be taken as a recommendation...







